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AUDIT AND SCRUTINY COMMITTEE MONDAY, 22 NOVEMBER 2021

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held VIA MS TEAMS on
MONDAY, 22 NOVEMBER 2021 at 10.15 am

J. J. WILKINSON,
Clerk to the Council,

15 November 2021

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
	AUDIT BUSINESS	
4.	<p>Minute. (Pages 5 - 14)</p> <p>(a) Consider Minute of Special Meeting of the Audit and Scrutiny Committee held on 5 October 2021 to be approved and signed by the Chairman. (Attached.)</p> <p>(b) Consider Minute of Meeting of the Audit and Scrutiny Committee held on 21 October 2021 to be approved and signed by the Chairman. (Attached)</p>	5 mins
5.	<p>Audit Action Tracker (Pages 15 - 16)</p> <p>Consider and note progress made on the Action Tracker. (Attached)</p>	5 mins
6.	<p>Annual Assurance Statement 2020/21 to the Scottish Housing Regulator - Update (Pages 17 - 32)</p> <p>Consider update report by Director Resilient Communities outlining progress in the areas set out in Appendix 1 Scottish Borders Council Annual Assurance Statement 2020/21 to the Scottish Housing Regulator of the Annual Governance Statement 2020/21 and Annual Assurance Statement 2020/21 to the Scottish Housing Regulator which was considered by Audit and Scrutiny Committee at its meeting on 10 May 2021. (Attached)</p>	15 mins
7.	<p>Bridge Homes LLP Final Accounts (Pages 33 - 52)</p> <p>Note Bridge Homes LLP Annual Report and Accounts 2020/21. (Attached)</p>	10 mins
8.	Mid-Year Treasury Management Report 2021/22 (Pages 53 - 70)	15 mins

	Consider mid-term report by Director Finance & Corporate Governance on the Council's Treasury Management activities undertaken during first half of financial year 2021/22 for review and scrutiny prior to Council approval. (Attached.)	
9.	Internal Audit Mid-Term Performance Report 2021/22 (Pages 71 - 82) Consider a report by Chief Officer Audit & Risk on progress Internal Audit has made during the first half of the year towards completing the Annual Plan 2021/22 and an outline of performance. (Attached)	15 mins
10.	Internal Audit Work to October 2021 (Pages 83 - 94) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2021/22. (Attached)	15 mins
11.	Progress on Implementation of Internal Audit Recommendations (Pages 95 - 104) Consider a report by Chief Officer Audit & Risk on progress with the implementation by Management of recommendations made and agreed in Internal Audit reports during 2021/22 and previous years. (Attached)	15 mins
12.	Corporate Risk Management Policy and Strategy (Pages 105 - 120) Consider report by Chief Officer Audit & Risk on a revised Risk Management Policy statement and Risk Management Strategy. (Attached)	15 mins
13.	Counter Fraud Policy and Strategy (Pages 121 - 132) Consider report by Chief Officer Audit & Risk on a revised Counter Fraud Policy statement and Counter Fraud Strategy. (Attached)	15 mins
14.	Any Other Audit Items Previously Circulated.	
15.	Any Other Audit Items which the Chairman Decides are Urgent.	
	SCRUTINY BUSINESS	
16.	Scrutiny Action Tracker and Work Programme Consider Action Tracker and Scrutiny Work Programme. (TO FOLLOW)	10 mins
17.	Any Other Scrutiny Items Previously Circulated.	
18.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

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

Please direct any enquiries to Declan Hall, Democratic Services Officer
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**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTE of Special Meeting of the AUDIT AND SCRUTINY COMMITTEE held via Microsoft Teams on Tuesday, 5 October 2021 at 2.00 p.m.

Present:- Councillors S. Bell (Chairman), H. Anderson, J.A. Fullarton, J. Greenwell, N. Richards, E. Robson, H. Scott, S. Scott, E. Thornton-Nicol.
Also Present - Councillor R. Tatler.
In Attendance:- Chief Roads Officer, Parks & Environment Operations Manager, Democratic Services Team Leader.

1. PETITION

1.1 Petitions Procedure

There had been circulated copies of the Audit and Scrutiny Committee Petitions procedure. The Chairman outlined the process and advised Members that the petition only related to the public toilets in West Linton and they should restrict their consideration to those. The Chairman welcomed Mr Ian Reid, Lead Petitioner and Ms Marion Storrie from West Linton Community Council.

1.2 West Linton Toilets Petition

There had been circulated copies of a petition entitled "SBC should reopen and take full responsibility for managing the public toilets in West Linton", which had received around 1300 signatures. There had also been circulated copies of a briefing note by the Director Infrastructure and Environment in response to the petition. In the statement within the petition, it was explained that the public toilets in the middle of West Linton, run by Scottish Borders Council, had been closed for over 16 months since the start of the Covid-19 pandemic while others across the region had re-opened. It was noted that the toilets in West Linton had now re-opened and initially the petition had been withdrawn. However, the Council had now indicated that the toilets would close again at the end of the month so the petition had been re-submitted which urged the Council to re-open the toilets on a permanent basis.

1.3 The Chairman invited Ian Reid, Lead Petitioner, to present his petition. Mr Reid explained that he was not representing any particular group but he had listened to people and discussed his concerns with West Linton Community Council and they supported the petition. Mr Reid explained that he had begun the petition after a visit to Aberdeenshire where he found that all of the public toilets were open. He had been surprised at the level of support with the petition receiving around 1300 signatures, 800 online and 500 on paper copies. He explained the impact that the closure of the toilets had on the people of West Linton, those from surrounding communities and tourists. The toilets were centrally located close to the shops and the park and their closure had an impact on all ages from young people visiting the park to the elderly visiting the shops. He also highlighted the impact on tourists with people from 67 different places signing the petition. He had also ascertained that when the toilets were closed they could still be accessed by Council employees such as those on refuse lorries who had a key. He considered that if the toilets were having to be cleaned for Council employees then they should be able to stay open for everyone. Mr Reid thanked Mr Hedley and Mr Pringle for their engagement with him on this matter. Ms Storrie confirmed the support of the Community Council for keeping the toilets open.

- 1.4 In response to questions from Members, Mr Reid advised that West Linton had a population of just over 2000 people and was located on the A702 which was the main trunk road between Edinburgh and the M74. It was also connected to the A701 which was promoted as a tourist route and West Linton was signposted from that road as a historical conservation village. The sign also advertised that the village had toilets. He confirmed that the toilets were 2 spacious single compartments which could accommodate mobility scooters. With regard to the impact on tourists he advised there was a toilet in the local café but it had been overwhelmed by the demand and was not accessible for a mobility scooter. The owner had also required to repair them due to overuse. He also commented that the public toilets were also used by the tennis club. With regard to community provision he advised that 3 local organisations had indicated an interest but 2 had subsequently withdrawn. In response to a question on visitor numbers during the winter, Mr Reid advised that it depended on the number of events in Edinburgh. However, a number of people on biking holidays based themselves in West Linton. He considered that the biggest impact was on the vulnerable members of the community. Pre-Covid the toilets had been open on a permanent basis. The local cleaner had retired in December 2020 but a person had been appointed that had duties including the cleaning of the toilets. He had also suggested that the caretaker of the Graham Institute, which was located across from the toilets, could also assist with the cleaning. Mr Hedley advised that h had no questions for Mr Reid.
- 1.4 The Chief Roads Officer was invited to respond to the Petition on behalf of the Council The paper which had been circulated set out the background to the closure of the Council's 41 public toilets when lockdown was imposed. Scottish Government had published guidance for local authorities on the operation of public toilets and it had been agreed to reopen 15 of these public toilets on 17 July 2020 with a 3 times daily cleaning regime. Following the further relaxing of Covid restrictions there had been growing pressure on the Council to open more public toilets and this led to the opening of further units with cleaning once a day and reduced opening hours until the end of October. The paper also commented on the use of comfort schemes where local businesses made their facilities available. The paper provided a detailed response to each of the points raised in the petition and advised that the future model for public toilets across the Scottish Borders would be the subject of a report to a future Council meeting. Mr Hedley confirmed that on further investigation there were no comfort schemes operating in West Linton.
- 1.5 Mr Hedley answered Members questions and advised that Live Borders operated the Graham Institute so there would be a cost to use their staff. It was suggested that the subject should at least be discussed to see if some agreement could be reached. With regard to disabled access Mr Hedley advised that the public toilets were refurbished in 2010 and were fully accessible but he could not comment on other facilities in the village and undertook to check. He was unable to provide an individual breakdown of the cost of operating the West Linton toilets. Opening hours were currently 9am-5pm seven days per week. In response to the criteria used for deciding which toilets would reopen, Mr Hedley advised that it was based on usage and ease of operation. With regard to the likely recommendations in the future report to Council it was noted that a previous report had approved the carrying out of a procurement exercise for the service and due to Covid there had been no further report to Council. In response to Council workers having keys, Mr Hedley advised that this had been introduced before lockdown when charging had been implemented. He was unable to advise how many keys had been issued but he considered that usage by employees would be infrequent. He was happy to have discussions with any community group who might be prepared to take over operation of the toilets.
- 1.6 Mr Hedley answered Mr Reid's questions and advised that he did not know what cleaning regime was in place for employee usage. With regard to the Community consultation promised by Councillor Haslam, Mr Hedley advised that this had not been a formal part of his original report but there was regular informal consultation with communities. With

regard to other statements made by Councillors, the Chairman advised that Mr Hedley was not in a position to comment on these.

- 1.7 Having heard from both Mr Reid and Mr Hedley, the Chairman outlined the decisions that they could make. Members discussed their recommendations and it was unanimously agreed that they favoured the option of referring the matter to the relevant Director with the recommendation that the West Linton toilets should remain open until a formal decision was taken by Council. They also requested that the Director of Infrastructure and Environment be asked to explore all options for cleaning including discussions with Live Borders given that these toilets were also used by Council employees.
- 1.8 The Chairman thanked Mr Reid and Ms Storrie for their presentation of the Petition and Mr Hedley for his input.

DECISION

AGREED that the Petition should be referred to the relevant Director with the recommendation from the Committee that the West Linton toilets should remain open and that the Director of Infrastructure & Environment be asked to explore all options to allow this, including discussions with Live Borders to support the cleaning regime and in light of the use of these toilets by Council staff. On a wider basis the Director should also consider keeping the other 9 toilets across the Borders open until a decision was taken by the Council on future provision.

The meeting concluded at 3.45 pm

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SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND
SCRUTINY COMMITTEE held Via Microsoft
Teams on Thursday, 21 October 2021 at
10.00 am

Present:- Councillors S. Bell (Chairman), H. Anderson, J. A. Fullarton, J. Greenwell,
N. Richards, E Robson, H. Scott, E. Thornton-Nicol; Ms H. Barnett and
Mr M. Middlemiss(from para 2).

Apologies: Councillor S. Scott

In Attendance:- Director Finance & Corporate Governance, Pensions & Investment Manager,
Chief Officer Audit and Risk, Clerk to the Council, Democratic Services Officer
(D. Hall).
Mrs G. Woolman and Mr A. Haseeb – Audit Scotland.

AUDIT BUSINESS

1 MINUTE.

- 1.1 There had been circulated copies of the Minute of 20 September 2021.

DECISION

APPROVED for signature by the Chairman.

- 1.2 The Chairman asked about the Minute of the meeting of Audit & Scrutiny on 5 October 2021 and the Clerk to the Council apologised that the Minute was not before the meeting. It would be brought to the next meeting of the committee.
- 1.3 With reference to paragraph 6 of the Minute of 20 November 2020 regarding Internal Audit Work, and the decision of the Committee 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, the Chairman advised that he had written to the Director of Finance and Corporate Governance asking for an update. Mr Robertson advised that he had provided a response to the Convenor. He could confirm to Committee that a letter had been issued to NHS Borders as previously agreed and the matter was with the Director of Finance of NHS Borders for action. While the SLA was not yet signed, NHS Borders is paying a 50% contribution to the costs of the service, the position would be clarified with NHS Borders as soon as possible,

DECISION

NOTED.

2 EXTERNAL AUDIT ANNUAL REPORT 2020/21 FOR SCOTTISH BORDERS COUNCIL PENSION FUND

With reference to paragraph 4 of the Minute of 22 October 2020, there had been circulated copies of a report by Audit Scotland in respect of Scottish Borders Council Pension Fund. Mrs Woolman, Audit Scotland, advised that their audit work on the 2020/21 annual report and accounts was now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual report and accounts for final review, they anticipated being able to issue unqualified audit opinions in the independent auditor's report on 28 October 2021. In response to

questions, the Director Finance & Corporate Governance, Mr Robertson, advised that with regard to a £0.36m unadjusted error identified, this was because some investment returns were declared after the audit, with those returns being accounted for in the 2021/22 accounts. As the amount was less than the materiality level, the accounts did not require to be adjusted. With regard to capacity issues within the Finance and Human Resources departments, Mr Robertson provided assurances that work levels were being monitored appropriately and that if more staff were required then this would be resolved in a suitable manner. Mr Robertson further advised that the online self-service tool for Pension Scheme members when implemented was expected to have a significant positive impact, reducing workloads for those working in the Pensions admin team. The Chairman congratulated the Pension Fund Board and Officers on their management of the Pension Fund.

DECISION

NOTED Scottish Borders Council Pension Fund Annual Report 2020/21 from the Council's External Auditor.

MEMBER

Mr M Middlemiss joined the meeting during the discussion of the above item.

3 AUDITED REPORT AND ACCOUNTS 2020/21 FOR SCOTTISH BORDERS COUNCIL PENSION FUND

There had been circulated copies of a report by Director Finance & Corporate Governance on the final Annual Report and Accounts for the Pension Fund for 2020/21. The report provided the Audit and Scrutiny Committee with an opportunity to scrutinise the final Account Report and Accounts for the Pension Fund for 2020/21 prior to their submission to Scottish Borders Council for signature. Mr Robertson advised of a typographical error in the report, where reference was made to accounts for 2019/20 in error, the report should have referred to 2020/21. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, contained in Appendix 1 to the report. Audit Scotland had now completed their audit and had given an unqualified audit opinion. They had identified two new recommendations and five recommendations from previous audits requiring action and these had been accepted by Management and would be enacted within the agreed timescales. The Annual Report had also been presented to members of the Pension Fund Committee and Pension Board for approval prior to Scottish Borders Council for signature.

DECISION

- # (a) AGREED to recommend to the Pensions Fund Committee that it sought reassurance that by 31 March 2022 the recommendations detailed in the management action plan would be achieved; and**
- (b) NOTED the Scottish Borders Council Pension Fund Annual Report and Accounts for 2020/21.**

4 EXTERNAL AUDITORS' ANNUAL AUDIT REPORTS 2020/21.

- 4.1** With reference to paragraph 6.1 of the Minute of 22 October 2020, there had been circulated copies of covering letters and a report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland had now completed the audit of the Council's Annual Accounts for 2020/21 and Ms Woolman anticipated issuing an unmodified audit opinion in all cases. Ms Woolman advised that the financial statement gave a true and fair view. There were no unadjusted misstatements or material weaknesses in the accounting and internal control systems identified during the audit. The Committee confirmed that they knew of new issues or any concerns with regard to fraud or non-compliance.

- 4.2 A number of questions were raised which were answered by officers. Regarding financial misstatements, Mrs Woolman explained that the audit aggregated all amounts, credits and debts to assess whether the approach to the audit was correct. Regarding cyber security accreditation, the Chief Officer Audit & Risk advised that elements were monitored through the Officers Information Governance Group which looked at PSN accreditation and that would be captured in the Internal Audit review of Information Governance. An assessment of this would be presented to the Committee in March 2022. A webinar was due to be held the following week which would share lessons learned from the cyber-attack on SEPA. Regarding £27m of Covid relief funds provided by the Scottish Government, Mr Robertson explained that Scottish Borders Council had used £11.3m of the funding to ensure the continuation of essential services and had retained £15.7m in reserves. Those reserves continued to be drawn down and deployed to meet Covid related challenges as they arose, and would continue to be used as such. With regard to inconsistencies in Educational Maintenance Allowance record keeping, Mr Haseeb advised that as there had been sufficient improvements in record keeping compared to the prior year as a result of the work undertaken across the Council to address the recommendation in last year's annual audit report, no further recommendation was being made. As further work was still being carried out to address this that would be monitored. In response to a question regarding £34m made available to CGI, Mr Robertson clarified that the sum referred to was in fact the future transformation projects budget, earmarked to harness new technologies to adapt to the changing way customers interact with the Council. With regard to medium and long term financial planning, Mrs Woolman acknowledged that whilst accurate long term planning was challenging, the Council had an obligation to proceed with caution. Mr Robertson added that the Council had first adopted its current approach to long term planning in 2013/14. He noted that transforming services took time and highlighted the Council's good track record in the area. Regarding S.106 charities, Mr Robertson explained that discussions had taken place with the Education Department regarding work to consolidate a significant number of education trusts into the SB Education charity. It had been agreed that the Education department had to lead the substantial piece of consultation work required before the technical process to consolidate the trusts could be undertaken led by Finance and Legal Services. In regard to National Fraud Initiative (NFI) matches, Mrs Woolman explained that whilst the current timescale matched to the 2 year NFI programme, an alternative timescale could be followed. Mrs Stacey added that if resources were available work would be undertaken before the end of the year.

DECISION

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

5 SCOTTISH BORDERS COUNCIL ANNUAL REPORTS AND ACCOUNTS 2020/21

- 5.1 With reference to paragraph 7.1 of the Minute of 22 October 2020, there had been circulated copies of a report by the Director Finance and Corporate Governance presenting copies of the Council's audited Annual Accounts for 2020/21. The audit appointment of Audit Scotland for Scottish Borders Council accounts included the requirement to provide an auditor's report for the Council as well as related charities. KPMG continued to provide the external audit of the Council subsidiary Bridge Homes LLP. Audit Scotland had now completed the audit of the Council's Annual Accounts for 2020/21 and were expected to issue an unqualified audit opinion in all cases. In addition, Audit Scotland concurred with Management's accounting treatment and judgements; and had reached positive conclusions in respect of financial sustainability, financial management, governance, transparency and value for money. Audit Scotland had identified six new and one follow-up to prior year recommendations for improvement requiring action and these had been accepted by Management and would be enacted within the agreed timescales.

- 5.2 As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC

Charitable Trusts, and Lowood Tweedbank Ltd were being presented to the Audit and Scrutiny Committee prior to signature. The report also referred to KPMG's external audit of Bridge Homes LLP which had raised no issues, with no matters to report. However, that audit was not yet complete and therefore was not before the Committee for final consideration that day. Mr Robertson advised that although the audit of Bridge Homes LLP by KPMG had not been signed off, no issues were expected to arise. In response to a question regarding Scottish Water (SW) balances, Mr Robertson explained that SBC collected water fees as an agent of Scottish Water (SW). However, because SBC did not collect 100% of the water charges that it levied, discussions were required with SW to ensure that those debts which had subsequently proven to be uncollectable were written off by SW.

DECISION

(a) AGREED to recommend the following accounts for officer signature and Council approval:

- i. the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2021;**
- ii. the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2021;**
- iii. the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2021;**
- iv. the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2021;**
- v. the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2021;**
- vi. the SBC Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2021;**
- vii. the Scottish Borders Council Charitable Trusts (Charity SC043896) audited Annual Accounts for the year to 31 March 2021; and**
- viii. the Lowood Tweedbank Ltd Annual Accounts for the year to 31 March 2021.**

(b) NOTED the Bridge Homes LLP Annual Accounts for the year to 31 March 2021, prior to the receipt of the final audit certificate.

SCRUTINY BUSINESS

- 6. ANY OTHER SCRUTINY ITEMS WHICH THE CHAIRMAN DECIDED WERE URGENT**
In response to a question from the Chairman, the Clerk to the Council advised that no petition had been received relating to Teviot Day Services. In relation to further Scrutiny business coming before the Committee, the Clerk confirmed that an updated timeline would be brought to the next meeting.

**DECISION
NOTED.**

PRIVATE BUSINESS

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business detailed in the Appendix to this Minute on the grounds that it involved the likely disclosure of exempt information as defined in Paragraphs 3 & 10 of Part I of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

7. **MINUTE**

The private section of the meeting held on 20 September 2021 was approved.

The meeting concluded at 12.28 pm

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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 & Corporate Governance 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 & Corporate Governance	David Robertson	In progress. Budget agreed by NHS Borders and SBC. Awaiting SLA sign-off by NHS Borders DoF.
10 May 2021				
Minute 8 March 2021	AGREED to add Treasury Management refresh training on 22 November 2021 to the Action Tracker.	Finance & Corporate Governance	David Robertson	Agreed with Treasury Management Advisor.
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	22 November 2021 agreed for Update on revised approach to delivering counter fraud.
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.	Resilient Communities	Jenni Craig	22 November 2021 proposed for Update report on progress.
29 June 2021				
Unaudited Report and Accounts 2020/21 for Scottish Borders Council	AGREED that in respect of the three re-organised trusts: SBC Welfare Trust; SBC Education Trust; and SBC Community Enhancement Trust: (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; (iv) to ask the Chief Executive to present a follow-up report on these funds to Executive Committee within next 3- 6 months.	Resilient Communities Education & Lifelong Learning Chief Executive	Jenni Craig Lesley Munro Netta Meadows	In progress Realistic target date 31 December 2021

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
20 September 2021				
Audit Scotland Fraud & Irregularity Update 2020-21	AGREED: (i) to request 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; (ii) to request 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; (iii) to request that the Integrity Group reports back to the Committee on findings and necessary actions; and, (iv) that the Chief Officer Audit & Risk arranged to disseminate the Audit Scotland Update to Council staff as necessary.	Audit & Risk	Jill Stacey	Counter fraud controls assessment by Integrity Group In progress; counter fraud controls assessment by Integrity Group 14 February 2022
Progress Update on LDS Financial Management Recommendation	AGREED that the Joint Learning Disability Service Manager would bring an update report on progress with implementation of the Internal Audit review recommendation to the Committee in 4-months time and that this would be held in public if possible.	Learning Disabilities Service	Simon Burt	14 February 2022 proposed for Update on progress
21 October 2021				
Audited Report and Accounts 2020/21 for Scottish Borders Council Pension Fund	AGREED to recommend to the Pensions Fund Committee that it sought reassurance that by 31 March 2022 the recommendations detailed in the management action plan would be achieved;	Finance & Corporate Governance	David Robertson	



ANNUAL ASSURANCE STATEMENT 2020/21 TO THE SCOTTISH HOUSING REGULATOR - UPDATE

Report by Director - Resilient Communities

AUDIT AND SCRUTINY COMMITTEE

22 November 2021

1 SUMMARY AND PURPOSE

- 1.1 This report outlines progress in the areas set out in Appendix 1 Scottish Borders Council Annual Assurance Statement 2020/2021 to the Scottish Housing Regulator of the Annual Governance Statement 2020/21 and Annual Assurance Statement 2020/21 to the Scottish Housing Regulator which was considered by Audit and Scrutiny Committee at its meeting on 10 May 2021.**
- 1.2 In 2019, the Scottish Housing Regulator (“the Regulator”) revised its Regulatory Framework. This placed a new requirement on all social landlords to submit an Annual Assurance Statement to the Regulator by the end of October each year.
- 1.3 At its meeting on 10 May 2021, the Audit and Scrutiny Committee approved the Annual Assurance Statement 2020/21 in respect of landlord services provided by the Council (Appendix 1) be submitted to the Scottish Housing Regulator, and requested that an update report be presented to Audit and Scrutiny Committee in 6 months’ time, outlining progress in the areas set out in the Annual Assurance Statement to the Scottish Housing Regulator.
- 1.4 This report outlines progress in the areas set out in the Annual Assurance Statement to the Scottish Housing Regulator as detailed in the updated Summary Statement of Self-Assessment of Compliance against Regulatory Framework (Appendix 2).

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Scrutiny Committee notes the progress in the areas set out in the Annual Assurance Statement to the Scottish Housing Regulator (Appendix 1) as detailed in the updated Summary Statement of Self-Assessment of Compliance against Regulatory Framework (Appendix 2).

3 BACKGROUND

- 3.1 In 2019, the Scottish Housing Regulator (“the Regulator”) revised its Regulatory Framework. This placed a new requirement on all social landlords to submit an Annual Assurance Statement to the Regulator by the end of October each year. This statement must either confirm that the Governing Body or appropriate Committee is assured that the landlord is complying with all relevant regulatory requirements and standards, or highlight any material areas of non-compliance and how the landlord will address these.
- 3.2 As Scottish Borders Council is a housing stock transfer local authority, it is subject to submitting a Statement that is considerably less involved than an asset-owning authority. However, the Council is responsible for Homelessness Services provision in the Scottish Borders and must give assurance in this area.
- 3.3 At its meeting on 10 May 2021, the Audit and Scrutiny Committee approved the Annual Assurance Statement 2020/21 in respect of landlord services provided by the Council (Appendix 1) be submitted to the Scottish Housing Regulator, and requested that an update report be presented to Audit and Scrutiny Committee in 6 months’ time, outlining progress in the areas set out in the Annual Assurance Statement.
- 3.4 The Annual Assurance Statement confirms the Council’s level of compliance with all of the relevant requirements set out at Chapter 3 of the Regulatory Framework to include:
- All relevant and outcomes in the Scottish Social Housing Charter in respect of any tenants, homeless persons and other persons who are in receipt of housing services; and
 - Legal obligations associated with housing and homelessness services, equality and human rights, and tenant and resident safety.
- 3.5 The Annual Assurance Statement is informed by the self-assessment of compliance against the Regulatory Framework by the Homelessness Services Manager, and the work of Audit and Inspection bodies. More information is contained in Appendix 2 ‘Summary Statement of Self-Assessment of Compliance against Regulatory Framework- Update’, which outlines progress on the actions described since May.

4. PROGRESS IN THE AREAS SET OUT IN THE ANNUAL ASSURANCE STATEMENT

- 4.1 Appendix 2 ‘Summary Statement of Self-Assessment of Compliance against Regulatory Framework- Update’, outlines progress on the actions described since May.
- 4.2 Officers have reviewed and updated the homelessness ‘Self-Assessment and Service Improvement Action Plan’ in light of COVID-19 impacts. This has included:

- Strengthening governance arrangements, including with regard to:
 - a) Statutory and regulatory reporting requirements.
 - b) Performance management and reporting.
 - c) Development and implementation of policies and procedures.
 - d) Improvements in relation to customer involvement.
 - e) Developing and commencing an self-assessment programme.
- 4.3 As part of the Council's 'Internal Audit Annual Plan 2019/2020', the Council's Internal Audit team commenced an audit of homelessness services, including examination and evaluation of progress with the self-assessment of the service with the associated Service Improvement Action Plan.
- 4.4 The Council is continuing to engage with Tweedside Caravan Park and with the Scottish Housing Regulator in order to ensure that the Scottish Government's minimum standards for Gypsy/Traveller sites are met.
- 4.5 It should be noted that during Q2 of 2021/2022, we started to experience unprecedented pressure on our temporary accommodation stock. This pressure is also being experienced by other local authorities. We have been taking, and continue to take, measures to mitigate the resultant risk, including working with our RSL partners to take on additional properties for use as temporary accommodation.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from this report.

5.2 Risk and Mitigations

The Annual Assurance Statement details areas where additional work would further enhance the arrangements to meet the Regulatory Framework.

5.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes. This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

5.4 Acting Sustainably

Core principle of good governance "C, Defining outcomes of sustainable economic, social, and environmental benefits" is included within the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). The officer Governance Self-Assessment Working Group considered examples of evidence to demonstrate local compliance with all the Framework's seven core principles of good governance, supporting principles and a range of specific requirements.

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Director (Finance & Corporate Governance), Chief Legal Officer (including as Monitoring Officer), Chief Officer Audit & Risk, Director (People Performance & Change), Director (Resilient Communities), Clerk to the Council, Corporate Communications, Corporate Equalities and Diversity Officer, Customer Advice and Support Service Manager will be consulted and any comments received will be incorporated into the final report.

6.2 The Corporate Management Team have been consulted and any comments received will be incorporated into the final report.

Approved by

Jenni Craig
Director – Resilient Communities

Signature

Author(s)

Name	Designation and Contact Number
Jenni Craig	Director - Resilient Communities
David Kemp	Homelessness and Financial Support Manager

Background Papers:

Appendix 1 – Annual Assurance Statement 2020/2021

Appendix 2 – Summary Statement of Self-Assessment of Compliance against Regulatory Framework- Update

Previous Minute Reference: [Agenda for Audit and Scrutiny Committee on Monday, 10th May, 2021, 10.15 am - Scottish Borders Council \(modern.gov.co.uk\)](#)

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

Contact us at Council Headquarters, Newtown St Boswells, Melrose TD6 0SA.

Scottish Borders Council Annual Assurance Statement 2020/2021 to the Scottish Housing Regulator

This Annual Assurance Statement was reported under section 8 of the 2020/2021 Service Director Customer and Communities Assurance Statement on Internal Control and Governance, which informed the Annual Governance Statement 2020/2021 by the Chief Executive which was considered and approved by the Council's Audit and Scrutiny Committee at its meeting on 10 May 2021.

We confirm that in respect of landlord services provided by the Council we have seen and considered sufficient evidence to give us assurance that the Council complies with the regulatory requirements as laid out in Chapter 3 of the Scottish Housing Regulator's Regulatory Framework, including:

- all relevant standards and outcomes in the Scottish Social Housing Charter in respect of any tenants, homeless persons, and other person who are in receipt of housing services; and
- legal obligations associated with housing and homelessness services, equality and human rights, and tenant and resident safety.

Although there are a few areas of work to be completed for full compliance with the Scottish Housing Regulator's revised Regulatory Framework, the overall arrangements in respect of landlord services provided by the Council are operating satisfactorily.

To ensure full compliance with the Regulatory Framework further improvement actions are being implemented as follows:

- Gypsy/Traveller site – The Council's designated site for Gypsy/Travellers within Scottish Borders at Tweedside Caravan Park, Innerleithen does not yet meet the Scottish Government's minimum standards for Gypsy/Traveller sites. The Council is continuing to engage with Tweedside Caravan Park and with the Scottish Housing Regulator in order to ensure that the standards are met.
- Homelessness Services - 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. A 'Self-Assessment and Service Improvement Action Plan' is in place which is currently being reviewed and updated by officers in light of COVID-19 impacts.

Signed

Jenni Craig, Service Director – Customer and Communities

Signed

Councillor Stuart Bell, Chairman of Audit and Scrutiny Committee

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Annual Assurance Statement 2020/2021
Summary Statement of Self-Assessment of Compliance against Regulatory Framework – Update (as at 30/09/21)

<u>Annual Assurance Statement Statutory Guidance Requirement</u>	<u>Self-Assessment of Compliance</u>
Assurance & Notification	
<p>Prepare an Annual Assurance Statement in accordance with SHR published guidance, submit it to SHR between April and the end of October each year, and make it available to tenants and other service users.</p>	<p>The Scottish Borders Council Annual Governance Statement (AGS), forms a section of the SBC Annual Report and Statement of Accounts which is considered annually by the Council’s Audit and Scrutiny Committee. The ‘Scottish Borders Council Annual Assurance Statement 2020/2021 to the Scottish Housing Regulator’ is reported under section 8 of the 2020/2021 ‘Service Director Customer and Communities Assurance Statement on Internal Control and Governance’, which informs the Annual Governance Statement 2020/2021 by the Chief Executive which is being considered by the Council’s Audit and Scrutiny Committee at its meeting on 10 May 2021.</p> <p>This Summary Statement of Self-Assessment of Compliance against Regulatory Framework supplements the 2020/2021 ‘Service Director Customer and Communities Assurance Statement on Internal Control and Governance’.</p> <p>The ‘Annual Assurance Statement 2019/20 to the Scottish Housing Regulator’ by the Service Director Customer and Communities was considered and approved by Scottish Borders Council’s Audit and Scrutiny Committee at its meeting on 22 October 2020 and subsequently submitted to the Scottish Housing Regulator as required:</p> <p>https://scottishborders.moderngov.co.uk/documents/s46566/Item%2010%20-%20Cover%20report%20SBC%20Annual%20Assurance%20Statement%202019-20%20Landlord%20Services.pdf</p> <p>Update as at 30/09/21: Following approval by Audit and Scrutiny Committee on 10 May 2021, the ‘Annual Assurance Statement 2020/21 to the Scottish Housing Regulator’ by the</p>

	Service Director Customer and Communities has been submitted to the Scottish Housing Regulator as required.
Notify the SHR during the year of any material changes to the assurance in our Annual Assurance Statement.	SBC will notify the SHR during the year of any material changes as soon as possible.
Each landlord must have assurance and evidence that it is meeting all of its legal obligations associated with housing and homelessness services, equality and human rights, and tenant and resident safety.	<p>The Council is responsible for homelessness services provision in the Scottish Borders. As at 31 March 2021, this included the ownership and management of 18 properties, and the management of 94 properties leased from RSLs, for use as temporary accommodation for homeless people. In addition, the Council works together with an independent private business, Tweedside Caravan Park, to provide 10 pitches and related amenities for use by Gypsy/Travellers at Tweedside Caravan Park in Innerleithen.</p> <p>The overall arrangements in respect of the Council's legal obligations associated with housing and homelessness services, equality and human rights, and tenant and resident safety, appear to be operating satisfactorily although there some areas of work to be completed for full compliance with the revised Regulatory Framework:</p> <ul style="list-style-type: none"> • Gypsy/Traveller site – The Council's designated site for Gypsy/Travellers within Scottish Borders at Tweedside Caravan Park, Innerleithen does not yet meet the Scottish Government's minimum standards for Gypsy/Traveller sites. The Council is continuing to engage with Tweedside Caravan Park and with the Scottish Housing Regulator in order to ensure that the standards are met. It should be noted that the nature of the site arrangement in Scottish Borders presents unique challenges as the site is managed by an independent private business who lease the site from the Council and run the site as a commercial enterprise. • Homelessness Services - 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. A 'Self-Assessment and Service Improvement Action Plan' is in place which is currently being reviewed and updated by officers in light of COVID-19 impacts. The 'Self-Assessment and Service Improvement Action Plan' includes a specific action in relation to customer involvement.

The Council's 'Internal Audit Annual Plan 2019/2020' which was agreed at the Council's Audit and Scrutiny Committee on 11 March 2019 committed to a "Review of controls in place to ensure the achievement of statutory obligations for the Homelessness service, including a focus on prevention and support." The corresponding Internal Audit report was completed in February 2020 and reported to Audit and Scrutiny Committee on 9 March 2020 as part of item 4 'Internal Audit Work to February 2020':

<https://scottishborders.moderngov.co.uk/ieListDocuments.aspx?CId=343&MId=4567>

Update as at 30/09/21:

- During Q2 of 2021/22, we started to experience unprecedented pressure on our temporary accommodation stock. This pressure is also being experienced by other local authorities. We have been taking, and continue to take, measures to mitigate the resultant risk, including working with our RSL partners to take on additional properties for use as temporary accommodation.
- Officers have reviewed and updated the homelessness 'Self-Assessment and Service Improvement Action Plan' in light of COVID-19 impacts. This has included:
 - Strengthening governance arrangements, including with regard to:
 - statutory and regulatory reporting requirements;
 - performance management and reporting;
 - development and implementation of policies and procedures.
 - Improvements in relation to customer involvement.
 - Developing and commencing a self-assessment programme.
- As part of the Council's 'Internal Audit Annual Plan 2021/2022', the Council's Internal Audit team commenced an audit of homelessness services, including examination and evaluation of progress with the self-assessment of the service with the associated Service Improvement Action Plan.

	<ul style="list-style-type: none"> The Council is continuing to engage with Tweedside Caravan Park and with the Scottish Housing Regulator in order to ensure that the Scottish Government's minimum standards for Gypsy/Traveller sites are met.
Notify the SHR of any tenant and resident safety matters which have been reported to, or are being investigated by the Health and Safety Executive, or reports from regulatory or statutory authorities, or insurance providers, relating to safety concerns.	<p>The fire safety space standards requirements for Gypsy/Travellers sites have been incorporated into the draft occupancy agreement which is currently being negotiated with Tweedside Caravan Park via their agent.</p> <p>There are no other tenant or resident safety matters which have been reported to, or are being investigated by the Health and Safety Executive, or reports from regulatory or statutory authorities, or insurance providers, relating to safety concerns.</p>
Make our Engagement Plan easily available and accessible to its tenants and service users, including online.	The SHR's Engagement Plan with SBC is located on the Council's website at https://www.scotborders.gov.uk/info/20048/homeless/933/scottish_social_housing_charter_and_Charter_performance_ _Gypsy/Travellers_-_Rights_and_responsibilities_ _Scottish_Borders_Council_(scotborders.gov.uk)
Scottish Social Housing Charter Performance	
<p>Submit an Annual Return on the Charter (ARC) to the SHR by 31 May* each year in accordance with the SHR's published guidance.</p> <p>(* On 18 March 2020, in response to the COVID-19 pandemic, the Scottish Housing Regulator made a temporary adjustment to the 2020 deadline extending it from the end of May to the end of July.)</p>	<p>The Council submitted its ARC for 2019/2020 to the SHR on 22 July 2020.</p> <p>Update as at 30/09/21: The Council submitted its ARC for 2020/2021 to the SHR on 31 May 2021.</p>
<p>Involve tenants, and where relevant other service users, in the preparation and scrutiny of performance information. It must:</p> <ul style="list-style-type: none"> Agree its approach with tenants. 	Work continues to improve the involvement of tenants and other service users in the preparation and scrutiny of performance information, and to agree the format of performance reporting with tenants and other service users, ensuring that it is accessible for them, and to give them a way to

<ul style="list-style-type: none"> • Ensure it is effective and meaningful – that the chosen approach gives tenants a real and demonstrable say in the assessment of performance • Publicises the approach to tenants • Ensure that it can be verified and be able to show that the agreed approach to involving tenants has happened • Involve other service users in an appropriate way, having asked and had regard to their needs and wishes. 	<p>feed back their views on the style and form of the reporting. The ‘Self-Assessment and Service Improvement Action Plan’ includes a specific action in relation to customer involvement.</p> <p>Update as at 30/09/21:</p> <ul style="list-style-type: none"> • Self-assessment of ‘customer engagement’ has been included as a priority in the homelessness self-assessment programme within the reviewed and updated homelessness ‘Self-Assessment and Service Improvement Action Plan’. • Officers have developed a new homelessness services customer feedback survey which is intended to give all homelessness service users the opportunity to give their views on their experience of the service and to make suggestions for how the service could be improved. The default survey medium is online but every service user who does not have digital access will be given or sent a paper version of the survey. • A survey on Health and Wellbeing during Covid-19 has been carried out with clients of the homelessness Housing Support service.
<p>Report its performance in achieving or progressing towards the Charter outcomes and standards to its tenants and other service users (no later than October each year**). It must agree the format of performance reporting with tenants, ensuring that it is accessible for tenants and other service users, with plain and jargon-free language.</p> <p>When reporting its performance to tenants and other service users it must:</p> <ul style="list-style-type: none"> • Provide them with an assessment of performance in delivering each of the Charter outcomes and standards which are relevant to the landlord. • Include relevant comparisons – these should include comparisons with previous years, with other landlords and with national performance. 	<p>Reports on the Council’s performance in achieving or progressing towards the Charter outcomes and standards can be found on the Council’s website at https://www.scotborders.gov.uk/info/20048/homeless/933/scottish_social_housing_charter and Charter performance Gypsy/Travellers - Rights and responsibilities Scottish Borders Council (scotborders.gov.uk). These website pages are currently being updated.</p> <p>A report on the Council’s performance in achieving or progressing towards the Charter outcomes and standards in relation to temporary accommodation for homeless people was sent to all current occupants of homelessness temporary accommodation on 22 December 2020.</p> <p>Work remains to be done to involve tenants and other service users in the preparation and scrutiny of performance information, and to agree the format of performance reporting with tenants and other service users, ensuring that it is accessible for them, and to give them a way to feed back their views on the style and form of the reporting. The ‘Self-Assessment and Service Improvement Action Plan’ includes a specific action in relation to customer involvement.</p>

<ul style="list-style-type: none"> • Set out how and when the landlord intends to address areas for improvement. • Give tenants and other service users a way to feed back their views on the style and form of the reporting. <p>(** On 31 August 2020, in response to the COVID-19 pandemic the Scottish Housing Regulator made a temporary adjustment to the 2020 deadline extending it from October to December.)</p>	<p>Update as at 30/09/21:</p> <ul style="list-style-type: none"> • Self-assessment of ‘customer engagement’ has been included as a priority in the homelessness self-assessment programme within the reviewed and updated homelessness ‘Self-Assessment and Service Improvement Action Plan’. • Officers have developed a new homelessness services customer feedback survey which is intended to give all homelessness service users the opportunity to give their views on their experience of the service and to make suggestions for how the service could be improved. The default survey medium is online but every service user who does not have digital access will be given or sent a paper version of the survey. • A survey on Health and Wellbeing during Covid-19 has been carried out with clients of the homelessness Housing Support service.
<p>Make the SHR’s report on the landlord’s performance easily available to its tenants, including online.</p>	<p>The SHR’s information about SBC, including information about performance, can be found at Scottish Borders Council Scottish Housing Regulator</p>
<p>Tenants and Service Users Redress</p>	
<p>Make information on reporting significant performance failures, including the SHR’s leaflet, available to its tenants.</p>	<p>The SHR’s leaflet is available on the Council’s website at: https://www.scotborders.gov.uk/info/20048/homeless/229/how_to_appeal_or_complain</p>
<p>Provide tenants and other service users with the information they need to exercise their right to complain and seek redress, and respond to tenants within the timescales outlined in its service standards, in accordance with guidance from the Scottish Public Services Ombudsman (SPSO).</p>	<p>Information on how to make a complaint, in accordance with SPSO guidance, and complaints performance reports are available on SBC’s website at: https://www.scotborders.gov.uk/info/20016/have_your_say/155/make_a_complaint</p> <p>Supporting procedures are on SBC’s intranet at: http://intranet.scotborders.gov.uk/yourjob/Pages/complaints-procedure.aspx</p>

Ensure it has effective arrangements to learn from complaints and from other tenant and service user feedback, in accordance with SPSO guidance.	
Whistleblowing	
Have effective arrangements and a policy for whistleblowing by staff and governing body/elected members which it makes easily available and which it promotes.	The Council's 'Procedure on the Disclosure of Unlawful or Improper Actions – otherwise known as "Whistle Blowing"' is Appendix 2 in the Council's 'Code of Conduct for Employees of Scottish Borders Council' which is located at http://intranet.scotborders.gov.uk/yourjob/Pages/human-resources/policy-procedures-guidelines.aspx
Equality and Human Rights	
Have assurance and evidence that it considers equality and human rights issues properly when making all of its decisions, in the design and review of internal and external policies, and in its day-to-day service delivery.	The Council's Integrated Impact Assessment (IIA) Process enables the development or review of projects, policies, strategies, functions & services that meet the demands of Equality legislation and do not discriminate. The Integrated Impact Assessment (IIA) Process and Supporting Guidance is located at http://intranet.scotborders.gov.uk/yourjob/Pages/equality-impact-assessments.aspx
To comply with these duties, landlords must collect data relating to each of the protected characteristics for their existing tenants, new tenants, people on waiting lists, governing body members and staff. Local authorities must also collect data on protected characteristics for people who apply to them as homeless. Landlords who provide Gypsy/Traveller sites must collect data on protected characteristics for these service users.	<p>Relevant data on protected characteristics is collected on homelessness applications in accordance with the Scottish Government's HL1, HL3 and Prevent1 case management database frameworks.</p> <p>Provision for the collection of relevant data on protected characteristics for service users who use the Gypsy/Traveller site at Tweedside Caravan Park is made within the draft Management Agreement which is currently being negotiated with Tweedside Caravan Park via their agent.</p>

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annual report and financial statements

Bridge Homes LLP

for the year to 31 March 2021

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MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2021.

Reference and Administrative Information

Company Name	Bridge Homes LLP
Company Registration Number	SO304775
Registered Office	Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA

Designated Members

The members who held office during the year and to the date of these financial statements were as follows:

Scottish Borders Council

Scottish Future Trust Investments Ltd

Scottish Borders Council has two votes and Scottish Futures Trust has one vote as per the Members Agreement resulting in Scottish Borders Council having controlling share of the LLP.

The members who held office at the date of approval of this members report confirm that, so far as they are each aware, there is no relevant audit information of which Bridge Homes' auditor is unaware; and each member has taken all the steps they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that Bridge Homes' auditor is aware of that information.

Auditor	KPMG LLP 20 Castle Terrace Saltire Court Edinburgh EH1 2EG
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Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore remain in office.

Professional support

The Council provides the Administrative, Legal and Financial support and advice to Bridge Homes.

Principal Activity

The principal activity of Bridge Homes during the year was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders.

Policy with respect to members' drawings and subscription and repayments of amounts subscribed or otherwise contributed by members

1. Cash received by Bridge Homes, excluding property disposal proceeds, will be allocated firstly to pay any operating costs, secondly in payment of any accrued interest charges on loan advances, thirdly to reimburse any amounts paid out under the Scottish Government guarantee (see below) and fourthly to establish and maintain the required Reserve Account balance. Any residual balances after making the above payments will be held to apply in early repayment of loan advances. Such balances will not be distributed without the unanimous approval of members and where any payment under the Facility Agreement (between Bridge Homes and Scottish Borders Council) has not been made in accordance with its terms.
2. Cash received from property disposals will be allocated firstly to reimburse any amounts paid out under the Scottish Government guarantee, secondly to pay any operating costs relating to the property disposed, thirdly in payment of any accrued interest charges on loan advances, fourthly to establish and maintain the Reserve Account balance, fifthly to repay any loan principal, sixth to pay any residual disposal proceeds to Scottish Borders Council and finally, following disposal of the final property, to repay the initial capital.

Business Review

Background

Scottish Borders Council (the Council) in partnership with Scottish Futures Trust Investments Ltd (SFT) have established a Council Led House Building Programme (National Housing Trust (NHT) Local Authority (LA) Variant in order to deliver more affordable housing in the Scottish Borders in line with the Local Housing Strategy. This NHT LA Variant, Bridge homes LLP aims to deliver up to 200 homes for mid-market rent.

Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council to borrow up to £18.8m along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget.

The Scottish Government provides a guarantee of rent to cover the loan of up to £3,000 per housing unit delivered.

SFT monitors the projects as a result of the Scottish Government guarantee for the loans.

Governance

The Bridge Homes Board has been established with 2 Council Senior Officers and 1 SFT Senior Officer on the Board. The Board meets quarterly and the financial viability of projects require to be signed off by all 3 Directors.

A Project Board, supported through the Council, has been established and meets regularly to oversee the development and delivery of the initiative. A Project Team, consisting of officers from the Council, has also been established to identify properties, secure property management service providers, develop systems and deliver the project.

Activity Summary

Bridge Homes was legally established in 2014/15 as a Limited Liability Partnership between Scottish Borders Council and Scottish Futures Trust in order to provide additional affordable housing for mid-market rent via the National Housing Trust / Local Authority Variant Initiative. By 31 March 2018 Bridge Homes owned 45 homes at Castle View Ayton, Queen Elizabeth Drive Galashiels, Standalane Way Peebles, Croft Field Court Denholm, Henderson's Court Kelso, and Waverley Road Innerleithen.

During 2018/19 Bridge Homes acquired an additional 4 flats at Hydro Gardens Peebles and 5 houses at Washington Avenue Kelso. Therefore by year end 31 March 2019 Bridge Homes owned 54 affordable homes across Scottish Borders. These final 9 acquisitions effectively brought an end to the development, or acquisition, phase of Bridge Homes' activity. The 31 March 2019 was also the extended initiative deadline for completed homes delivery agreed between the Council and Scottish Government.

In August 2018, Bridge Homes agreed to extend the existing 3 year Managing Agent contract with Orchard and Shipman by a further 2 years on the same terms and conditions. During 2019/20, there were subsequent discussions between the parties which culminated in the contract being extended for a further 3 years, with the fee being increased slightly, starting from 31 August 2020.

Following the decision by Borders Property Maintenance to withdraw from its relationship with Orchard and Shipman for the provision of response repairs, a range of alternative contractors covering all trades has been secured. Response repairs and other Key Performance Indicator reporting arrangements continue as per the contract.

The Covid-19 pandemic has prompted concerns regarding potentially adverse impact on the response repairs and rent collection performance. These have been monitored closely since the start of the pandemic. The latter was a particular concern since it could potentially impact by triggering the Scottish Government rental guarantee. Scottish Futures Trust developed and implemented an additional standard monthly rent monitoring template which has been implemented by all the LLPs established through the National Housing Trust / Local Authority Initiative. Orchard and Shipman has been providing the requested information. Fortunately repairs performance and rental income collected have remained at a high level.

The National Housing Trust / Local Authority Variant model is predicated on the disposal of Bridge Homes properties sometime between their fifth and tenth year anniversaries in order to repay the loan capital to the Council. Council Officers have met with the Scottish Government More Homes Division and Scottish Futures Trust counterparts in order to identify and agree a preferred way forward for a potential disposal strategy. This has been made more complex given the numbers of other LLPs established elsewhere in Scotland. This matter is still under discussion.

David Robertson CPFA
Designated Member
Scottish Borders Council
28 October 2021

STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE MEMBERS' REPORT AND FINANCIAL STATEMENTS

The members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of its profit or loss for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the LLP's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction

PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2021

2019/20		2020/21	Notes
£		£	
247,809	Turnover	275,055	1
(50,609)	Cost of Sales	(70,666)	2
197,200	Gross Profit	204,390	
(12,253)	Administrative Expenses	(14,023)	3
(72,843)	Revaluations	0	
112,104	Operating Profit	190,366	
(111,213)	Interest Payable & Similar Expenses	(110,873)	4
891	Profit For The Financial Year Available For Discretionary Division Among Members	79,493	5
567,843	Other Comprehensive Income Revaluation Gain/(Loss) on Property	140,000	
568,734	Total Comprehensive Income	219,493	

The LLP's turnover and expenses all relate to continuing operations.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

BALANCE SHEET as at 31 March 2021

2019/20		2020/2021		Notes
£		£	£	
7,737,889	Fixed Assets			
	Property, Plant and Equipment		7,877,889	5
	Current Assets			
52,874	Debtors	37,249		6
204,327	Cash at Bank	298,710		
257,201		335,959		
	Creditors			
(26,173)	Amounts falling due within 1 year	(25,438)		7
231,028	Net Current Assets		310,520	
7,968,917	Net Assets attributable to Members		8,188,409	
	Represented By:			
5,611,982	Loans and Other Debts due to Members		5,611,982	8
	Members' Other Interests			9
894,002	Capital Account	894,002		
(8,344)	Profit and Loss Reserve	71,146		
1,471,279	Revaluation Reserve	1,611,279	2,576,427	
7,968,917	Total Members' Interests		8,188,409	

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

These financial statements were approved by the members and authorised for issue on 28 October 2021 and are signed on their behalf by:

David Robertson CPFA
Designated Member
Scottish Borders Council
28 October 2021

Company Registered Number: SO304775

CASH FLOW STATEMENT for the year ended 31 March 2021

2019/20 £		2020/21 £
	Reconciliation of Profit to Net Cash Flow from Operating Activities	
891	Profit for the Financial Year	79,493
184,056	Adjustments to Profit for Non Cash Movements	110,873
45,638	(Increase)/Decrease in Debtors	15,625
(128,494)	Increase/(Decrease) in Creditors due within 1 year	(735)
102,091	Net Cash Inflow from Operating Activities	205,256

2019/20 £		2020/21 £
	Cash Flow Statement	
102,091	Net Cash Inflow from Operating Activities	205,256
	Financing Activities	
(111,213)	Interest Payable	(110,873)
(111,213)	Net Cash Inflow/(Outflow) from Financing Activities	(110,873)
(9,122)	Increase/(Decrease) in Cash	94,383
(9,122)	Movement in Cash in Period	94,383

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2021

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Revaluation Reserve £	Loans & Other Debts Due To Members £	Total £
Balance at 1 April 2020	894,002	(8,344)	1,471,279	5,611,982	7,968,917
Profit For The Year Available for Discretionary Division Among Members	0	79,493	0	0	79,493
Revaluations	0	0	140,000	0	140,000
Balance at 31 March 2021	894,002	71,146	1,611,279	5,611,982	8,188,409

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Revaluation Reserve £	Loans & Other Debts Due To Members £	Total £
Balance at 1 April 2019	894,002	(9,235)	903,436	5,611,982	7,400,184
Profit For The Year Available for Discretionary Division Among Members	0	891	0	0	891
Revaluations	0	0	567,843	0	567,843
Balance at 31 March 2020	894,002	(8,344)	1,471,279	5,611,982	7,968,917

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation

The financial statements have been prepared under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with FRS 102 1A, the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Statement of Recommended Practice: Accounting by Limited Liability Partnerships (effective 2019) issued by the CCAB (Consultative Committee of Accountancy Bodies).

Going Concern

Bridge Homes is 99.999% owned by Scottish Borders Council and is financed under a Facility Agreement with the Council to borrow up to £18.8m along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget.

As at 31 March 2021 £5.612m has been drawn down under the facility agreement. Each drawdown is due to be repaid no later than ten years after the date of drawdown or upon disposal of each housing unit purchased which may occur no earlier than five years after the date of purchase. The first drawdown and associated housing unit purchase occurred in 2014. The Members intend to dispose of all units five years after the date the last property was purchased in 2019, repaying the facility in full in 2024.

The Members have undertaken a going concern assessment. This assessment has taken account of the current and anticipated impact of COVID-19, which to date has had little impact on the LLP, and possible changes in trading performance including reasonably possible downsides. These downsides include reduced or delayed rental income cash inflows, which, whilst not impacting results to date, could arise due to the ongoing Covid-19 pandemic and a future economic downturn. A severe but plausible downside is considered to be that where rental income is restricted to the maximum amount guaranteed by the Scottish Government. Even under this scenario the LLP is forecast to have adequate working capital to execute its operations over the next 12 months from the date of approval of the financial statements.

As such, the Members consider that the LLP has adequate resources to continue in operational existence for the foreseeable future. As a result, the Members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from tenants are accounted for as income at the date the relevant service is provided.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Interest payable on capital advances is accounted for based on the applicable 4^{1/2} - 5 year PWLB (Public Works Loan Board) fixed interest rate applicable at the date the borrowing was initially incurred.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the revenue account, unless they properly represent capital receipts or capital expenditure.

Turnover

Turnover represents invoiced rental income from tenanted investment properties. This rental income is exempt from value added tax.

Tangible Fixed Assets

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land and Buildings are shown at most recent valuation. Any aggregate surplus or deficit arising from changes in market value is transferred to a revaluation reserve.

Under the Revaluation Policy, Property, Plant and Equipment are subject to revaluation every year. The fixed assets were revalued as at 31 March 2021 by Shepherd Chartered Surveyors, Independent Valuers.

Given the nature of the properties their useful lives are considered to be in excess of 50 years. The properties are maintained to a high standard their residual values are considered to be in line with their current valuations meaning that the depreciable amount of the assets is immaterial. The combination of this and the long useful life means there is no material depreciation charge to be recorded.

Cash and Liquid Assets

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Liquid resources comprise term deposits of less than one year.

Inventories

Any inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Support Services

The costs of support services provided by Scottish Borders Council are charged to Bridge Homes LLP in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP).

Accounting estimates and judgments disclosure note

The Annual Accounts contain estimated figures that are based on assumptions made by Bridge Homes about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items on the balance sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming year are Property Plant and Equipment. These values rely on the professional judgement of an external Chartered Surveyor using desktop valuations and are therefore subject to a degree of uncertainty.

NOTES TO THE FINANCIAL STATEMENTS

1 Turnover

2019/20 £		2020/21 £
247,809	Rental Income/Grant	275,055
247,809		275,055

2 Cost of Sales

2019/20 £		2020/21 £
47,905	Management Charges	68,314
1,841	Insurance	669
0	Landlord Registration	876
540	Other	(152)
322	Utilities	960
50,609		70,666

3 Administrative Expenses

2019/20 £		2020/21 £
1,013	Accountancy and Legal	543
11,240	Audit	13,480
12,253		14,023

4 Interest Payable & Similar Charges

2019/20 £		2020/21 £
86	Bank Charges	49
111,128	Interest Payable to Local Authority	110,824
111,213		110,873

5 Property, Plant and Equipment

(Property, Plant and Equipment consists of Land and Buildings)

2019/20 £		2020/21 £
7,242,889	NBV at 31 March 2020	7,737,889
(72,843)	Revaluation Losses charged to the Profit & Loss Account	0
567,843	Revaluation Gains/(losses) charged to the Revaluation Reserve	140,000
7,737,889	NBV at 31 March 2021	7,877,889

The historic cost of Land & Buildings as at 31 March 2021 is £6.361m (2019/20 £6.361m).

6 Debtors

2019/20 £		2020/21 £
43,180	Unpaid Rental Income	27,264
9,694	Grant for Central Support Costs	9,985
52,874		37,249

7 Creditors: Amounts Falling Due Within One Year

2019/20 £		2020/21 £
7,065	Management Charges	2,454
295	Utilities	0
9,120	Audit	13,000
2,419	Accountancy	2,492
3,140	Legal Fees	3,234
4,135	Miscellaneous	4,259
26,173		25,438

8 Loans & Other Debts Due To Members

2019/20 £		2020/21 £
5,611,982	Loan from Local Authority	5,611,982

In the event of liquidation of the LLP, Loans & other debts due to Members will be repaid following settlement of other unsecured creditors, including reimbursement of amounts paid out under the Scottish Government Guarantee in respect of any Interest Payment Shortfalls,

projected costs of liquidation and payment of accrued interest charges per Paragraph 6 Part 6 of the Members Agreement.

9 Members' Capital

2019/20 £		2020/21 £
1	Initial Capital - Scottish Borders Council	1
1	Initial Capital – Scottish Futures Trust Investments Ltd	1
894,000	Capital Grant - Scottish Borders Council	894,000
894,002		894,002

10 Related Party Transactions

Throughout the year Bridge Homes was controlled by the members. During the year, Bridge Homes entered into the following transactions with Scottish Borders Council:

	Transaction	Debtor/ (Creditor) At 31 March 2021
	£	£
Loan	0	(5,611,982)
Capital Grant	0	2
Revenue Grant	9,985	9,985
Service Charge	(9,985)	(9,985)
Loan Interest	(110,824)	0
	(110,824)	(5,611,984)

11 Ultimate Controlling Party

The Bridge Homes is controlled by the Designated Members as detailed on page 2.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIDGE HOMES LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIDGE HOMES LLP

Opinion

We have audited the financial statements of Bridge Homes LLP ("the LLP") for the year ended 31 March 2021, which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity, and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards applicable to smaller entities, including Section 1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The members have prepared the financial statements on the going concern basis as they do not intend to liquidate the LLP or to cease its operations, and as they have concluded that the LLP's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the members' conclusions, we considered the inherent risks to the LLP's business model and analysed how those risks might affect the LLP's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the LLP will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud:

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of members as to the LLP's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Used analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue comprises of simple transactions and is being collected monthly by a third party.

We did not identify any additional fraud risks.

We also assessed significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the LLP is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the LLP is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, residential tenancy regulations, recognising the financial nature of the LLP's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the members and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other Information

The members are responsible for the members' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in these respects.

Member's responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

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TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

Report by Director – Finance & Corporate Governance

AUDIT & SCRUTINY

22 November 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the mid-year report of treasury management activities for 2021/22, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit and Scrutiny Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2021 and demonstrates that Treasury activity in the first six months of 2021/22 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2020/21 out-turn and experience in 2021/22 to date for Council approval.

2 STATUS

- 2.1 This report is being distributed prior to the September Financial Monitoring being approved by the Executive Committee, currently scheduled for 16 November 2021. Any changes required as a result of this meeting will be reflected in the final version of this report being submitted to Council on 16 December 2021.

3 RECOMMENDATIONS

3.1 It is recommended that the Audit and Scrutiny Committee:

- (a) **Notes that treasury management activity in the six months to 30 September 2021 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2021/22, as contained in Appendix 1, to Council for approval of the revised indicators**

4 BACKGROUND

- 4.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2021/22 at the Council on 19 March 2021. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 As set out in the annual Treasury Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

5 TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

- 5.1 The Treasury Management Mid-Year Report for 2021/22 (the Mid-Year Report) is contained in Appendix 1. All of the 2021/22 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 19 March 2021.
- 5.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- (a) An economic update for the first six months of 2021/22.
 - (b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - (c) The Council's capital expenditure (prudential indicators)
 - (d) A review of the Council's investment portfolio for 2021/22
 - (e) A review of the Council's borrowing strategy for 2021/22
 - (f) A review of compliance with Treasury and Prudential Limits for 2021/22.
- 5.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval.
- 5.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

6 IMPLICATIONS

6.1 Financial

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

6.2 Risk and Mitigations

This report is an account of the outcomes delivered at the six month stage from the tightly controlled risk management work that the Council's Treasury staff have carried out; Appendix 1 gives further detail on these controls. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

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	Pensions & Investment Manager – Tel: 01835 825249
Sara Halliday	Treasury Business Partner – Tel: 01835 824000 extn 5854

Background Papers:

Previous Minute Reference: Scottish Borders Council, 19 March 2021

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

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email: t&cteam@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

1. BACKGROUND

a) Treasury management is defined as:

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

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

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

d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2021/22 as highlighted throughout this report.

2 ECONOMIC POSITION

2.1 ECONOMIC UPDATE *(from Link Group)*

At the meeting on 24th September the Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

There was a major shift in the tone of the MPC’s minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, “the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs” and that “the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures.” In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, **the MPC had been prepared to look through a temporary spike in inflation.**

So, in August the country was just put on alert. However, this time the MPC’s words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to **faster and higher inflation expectations and**

underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was ‘sustainably over 2%’. Indeed, whereas in August the MPC’s focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC’s meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

The **MPC’s forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Placing the focus on raising Bank Rate as “the active instrument in most circumstances”.
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. See comments below on US treasury yields.

EU. The slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

German general election. With the CDU/CSU and SPD both having won around 24-26% of the vote in the September general election, the composition of Germany’s next coalition government may not be agreed by the end of 2021. An SPD-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

2.2 INTEREST RATE FORECAST

The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View		29.9.21								
	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Additional notes by Link on this forecast table: -

- LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that suppresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to

cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?

- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the \$900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. **As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push

up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- **For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There have been no policy changes to the Statement. The details in this report update the position in light of updated economic position and budgetary changes.
- b) Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 19 March 2021. There are no further policy changes to the Statement. The details in this report provides an update on Treasury Management activities, including Prudential and Treasury Management Indicators.

4 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2021/22

- 4.1** This part of the report is structured to update:
- The Council's capital expenditure plans;
 - How these plans are being financed;

- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.2 CAPITAL EXPENDITURE

(Prudential Indicator (PI-1))

- a) The original capital plan for 2021/22 was approved on 19 March 2021. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2021/22.

Table 2	2021/22 Original Budget	2021/22 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Assets & Infrastructure	45.6	47.1	1.5
Other Corporate Services	11.4	12.7	1.3
Children & Young People	8.3	11.2	2.9
Culture & Sport	2.9	2.5	(0.4)
Economic Regeneration	9.1	9.6	0.5
Housing Strategy & Services	0.5	0.4	(0.1)
Social Care Infrastructure	9.4	0.4	(9.0)
Emergency & Unplanned Schemes	0.2	0.3	0.1
Total Capital Expenditure (PI-1)	87.4	84.2	(3.2)

¹ Executive Committee 16 November 2021

- b) The current approved budget for 2021/22 is less than the original budget mainly due to adverse timing movements in Social Care Infrastructure (New Residential Care Homes). Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 16 November 2021.

4.3 FINANCING OF THE CAPITAL PROGRAMME

- a) **Table 3** on the following page draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2021/22 capital programme.

Table 3	2021/22 Original Budget	2021/22 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Capital Expenditure (PI-1)	87.4	84.2	(3.2)
Other Relevant Expenditure	-	-	-

Total Expenditure	87.4	84.2	(3.2)
<i>Financed by:</i>			
Capital receipts	(1.6)	(1.4)	0.2
Capital from Revenue (CFCR)	(4.0)	(4.4)	(0.4)
Developer Contributions	(0.2)	(0.3)	(0.1)
Govt. General Capital Grant	(11.1)	(32.0)	(20.9)
Govt. Specific Capital Grant	(21.4)	(3.9)	17.5
Other Grants & Contributions	(12.0)	(13.1)	(1.1)
Replacement Funds	(2.1)	(2.0)	0.1
Total Financing	(52.4)	(57.1)	(4.7)
Net Financing Need for the Year	35.0	27.1	(7.9)

¹ Executive Committee 16 November 2021

- b) The decrease in overall financing need is a combination of the reduced projected capital expenditure as detailed in table 2 above, along with a net increase in government grants. The large movement between Govt General Capital Grant and Govt Specific Capital Grant relates mainly to the Hawick FPS.

4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council's accounts for the year ending 31 March 2021; this has resulted in a variance of £19.8m in the CFR.

Table 4	2021/22 Original estimate	2021/22 Revised estimate	Variance
	£m	£m	£m
CFR * (PI-2)	384.4	364.6	19.8

The CFR for this calculation includes current capital expenditure assumptions to 30 September 2021.

ACTUAL EXTERNAL DEBT (PI-5)

- iii) Projected external debt for 2021/22 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. In cash terms, the borrowing figure is lower than originally projected in line with the reduced net financing need as detailed above. A variance in cash levels held at the year-end compared to those projected also impact on the variance below.
- v) Due to the overall financial position and the timing of the capital programme, there has been no new external borrowing undertaken so far this year. It is anticipated that borrowing of £31m will be undertaken during the remainder of this financial year.

Table 5	2021/22 Original estimate	2021/22 Current Approved Budget	Variance
	£m	£m	£m
Borrowing	235.2	222.7	(12.5)
Other long-term liabilities	93.5	89.1	(4.4)
Total External Debt (PI-5)	328.7	311.8	(16.9)

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

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cash-flows to finance capital expenditure minimising the need to enter into additional debt financing arrangements.

Table 6	2021/22 Original estimate	2021/22 Current Approved Budget	Variance
	£m	£m	£m
Gross External Debt	328.7	311.8	(16.9)
CFR *	473.3	464.9	8.4
(Under)/Over Borrowing against CFR (PI-6)	(144.6)	(153.1)	(8.5)

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

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

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

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
 - (ii) The **Operational Boundary** which shows the expected operational debt position for the period.
- x) **Table 7** below shows revised estimates for the debt indicators for the 2021/22 financial year and compares them with the original estimates shown in the 2021/22 Treasury Management Strategy Report.

Table 7	2021/22 Original estimate	2021/22 Revised estimate	Variance £m

	£m	£m	
Gross External Debt (PI-5)	328.7	311.8	(16.9)
Authorised Limit inc. Long Term Liabilities(PI-8a)	531.1	525.9	(5.2)
<i>Variance to External Debt Estimate</i>	<i>202.4</i>	<i>214.1</i>	<i>11.7</i>
Operational Boundary inc. Long Term Liabilities (PI-7a)	442.6	438.2	(4.4)
<i>Variance to External Debt Estimate</i>	<i>113.9</i>	<i>126.4</i>	<i>12.5</i>

4.5 DEBT RESCHEDULING

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

5 INVESTMENT ACTIVITY

5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by the interest rate forecasts in section 2.2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24th September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.
- b) The Council held £32.5m of balances in interest bearing accounts as at 30 September 2021 (£27.9m at 31 March 2021). As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The increase in the level of balances invested from March to September, highlighted above, are due to timing differences between the receipt of grant funding and corresponding capital expenditure, detailed in section 4.4 above.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term.

Creditworthiness

- e) Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security

of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.

- b) Considering security, liquidity and yield of investment, priority is given to security. Daily updates and reports are received from Link Asset Services that allow officers to assess the continued credit worthiness of investment counter parties.
- c) All investments undertaken are on a short term, highly liquid basis, allowing access to invested funds at 1 days notice.
- d) Interest rates are also monitored on a daily basis to ensure the best return is obtained. Target for internal return on cash investment is to be above the 7 Day LIBID rate. The return for six months to 30 September 2021 has averaged 0.01%, compared against an average seven day LIBID rate of $-(0.08)\%$.

LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 19 March 2021 was £19.466m. It is expected that charges for 2021/22 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year.

ANNEX A

Indicator Reference	Indicator	Page Ref.	2021/22 Original estimate	2021/22 Revised estimate
PRUDENTIAL INDICATORS				
Capital Expenditure Indicator				
PI-1	Capital Expenditure Limits (£m)	9	87.4	84.2
PI-2	Capital Financing Requirement (£m) (CFR)	10	384.4	364.6
Affordability Indicator				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	8.7%	8.9%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	£0.01	£(0.00)
External Debt Indicators				
PI-5	External Debt (£m)	11	328.7	311.8
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	12	442.6	438.2
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	349.1	349.1
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	12	531.1	525.9
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	437.6	436.8
Indicators of Prudence				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	11	(144.6)	(153.1)
TREASURY INDICATORS				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		442.6	438.2
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		154.9	153.4
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		Lower	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	13	20%	20%

INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2021/22

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

22 November 2021

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit and Scrutiny Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2021, towards completing the approved Internal Audit Annual Plan 2021/22. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Internal Audit Annual Plan 2021/22 that was approved by the Audit and Scrutiny Committee on 8 March 2021 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer (the Council's Chief Audit Executive (CAE)), to provide the statutory annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions are also provided to the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations.
- 1.3 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year towards completing the approved Internal Audit Annual Plan 2021/22, despite lower than planned Internal Audit staff capacity. The programme of work for the six months from October 2021 to March 2022, based on maintaining current staffing levels within this period, presently indicates that the Internal Audit Annual Plan 2021/22 can be delivered in full.
- 1.4 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Notes the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2021/22; and**
 - b) Confirms that it is satisfied with the Performance of the Internal Audit service**

3 BACKGROUND

- 3.1 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.2 Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 The Internal Audit Annual Plan 2021/22 that was approved by the Audit and Scrutiny Committee on 8 March 2021 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer (the Council's Chief Audit Executive (CAE)), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4 Internal Audit assurance services are also provided during the year to the Scottish Borders Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual opinions are provided to their respective Management and Board/Committee to meet their obligations.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT ANNUAL PLAN 2021/22

- 4.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 4.2 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the achievement of its programme of work. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, and those scheduled for the second half of the year are not shaded. Internal Audit has made good progress in the first half of the year towards completing the approved Internal Audit Annual Plan 2021/22, despite lower than planned Internal Audit staff capacity.
- 4.3 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery. For example: the Fit for 2024 Transformation Programme; Information Governance Group; and Corporate Landlord Model. The related Assurance Reports are scheduled for completion by the end of the year 2021/22. The continuous audit approach is applied to non-SBC Internal Audit work for the Scottish Borders Council Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board.

5 COMPLETING THE INTERNAL AUDIT ANNUAL PLAN 2021/22

- 5.1 The Internal Audit staff resources taking account of the shared Internal Audit services arrangement with Midlothian Council comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor, one Senior Internal Auditor (interim), and three Internal Auditors (one part-qualified).
- 5.2 The Internal Audit programme of work for the six months from October 2021 to March 2022, based on maintaining current staffing levels within this period, presently indicates that the approved Internal Audit Annual Plan 2021/22 can be delivered in full.
- 5.3 The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit and Scrutiny Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.
- 5.4 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report which will also provide the statutory audit opinion based on audit findings over the year.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

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

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

- 7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
 - Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

- 7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2021/22. The results and any associated improvement actions will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.
- 7.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The findings of the second SBC EQA, completed by North Lanarkshire Council in early January 2021, assessed the function as 'fully conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards (consistent with the internal self-assessment). The findings and the main areas for improvement highlighted in the Final EQA Report were reported to the Audit and Scrutiny Committee on 15 February 2021.
- 7.5 Six of the seven improvements that were added to the QAIP arising from the EQA and the 2020/21 internal self-assessment have been implemented, as indicated in the Internal Audit Annual Assurance Report 2020/21 that was presented to the Audit and Scrutiny Committee in May 2021. The remaining improvement action in the QAIP arising from the EQA and 2020/21 internal self-assessment is as follows:

(1) Review the performance management arrangements with a view to ensuring a balanced suite of performance indicators are established, monitored and reported as appropriate. This should include consideration of seeking more formal feedback from clients / stakeholders as part of performance management arrangements (no.4 EQA).

Performance management arrangements across Internal Audit services in other Scottish Councils are being shared and considered to support the implementation of this improvement action. Progress on its completion will be presented within the Internal Audit Annual Assurance Report 2021/22 scheduled for presentation to the Audit and Scrutiny Committee in June 2022.

8 IMPLICATIONS

8.1 Financial

There are staff resources available to achieve the Internal Audit Annual Plan 2021/22 and to meet the key objective of delivering an effective Internal Audit function and providing the statutory internal audit opinion on internal controls and governance. Budget monitoring of the Audit and Risk service is discussed by the Chief Officer Audit & Risk and Principal Internal Auditor on a quarterly basis with Finance staff to address any budgetary pressures and to manage service delivery within budget.

8.2 Risk and Mitigations

- a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".
- b) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.
- c) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2021/22, at the start of each audit engagement, and during the programming of work to deliver the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- d) If Internal Audit staffing levels fall below that assumed for the remaining six-month period, there is the risk that the revised Annual Plan 2021/22 will not be delivered in full. This will be mitigated by way of people planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary. This is to ensure that a sufficient range and breadth of assurance audit work will be carried out during 2021/22 to underpin the statutory audit opinion to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.

8.3 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.

8.4 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.

8.5 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.

8.6 Rural Proofing

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

8.7 Data Protection Impact Statement

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

8.8 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.

9 CONSULTATION

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

9.2 The 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 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 Internal Audit intaudit@scotborders.gov.uk

AUDIT	DAYS	COMMENTARY	STATUS
Corporate Governance			
Corporate Governance	35	Prepare an Annual Assurance Report for Management and the Audit and Scrutiny Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with Local Code of Corporate Governance covering the corporate whole and Directorates/Services.	Continuous audit approach to follow-up on implementation of actions on Areas of Improvement set out in the Annual Governance Statement 2020/21 including Best Value Assurance Report actions (BVAR). Annual evaluation of compliance with and effectiveness of the Council's Local Code of Corporate Governance scheduled 4th Quarter. Internal Audit Annual Assurance Report 2021/22 will be presented to Audit and Scrutiny Committee in June 2022.
Information Governance	20	Continuous audit approach performing 'critical friend' role through the review of the Information Governance framework including roles and responsibilities for the different data controllers (including Assessor ERO), review policy development and implementation, assess compliance with the legislation, and provide annual assurance to the Senior Information Risk Owner (SIRO).	Continuous audit approach as Chief Officer Audit & Risk attends quarterly meetings of Information Governance Group and Senior Internal Auditor attends meetings of the Information Management Team. Assurance review of information governance framework scheduled 4th Quarter.
Performance Management	40	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for either Local Government Benchmarking Framework or Corporate Priorities PIs. Assess progress of the review and revision of the Performance Management Framework.	Split into two reviews - Performance Management Framework and LGBF. LGBF: Draft report issued 26 August 2021. Final Report issued 13 September 2021. Executive Summary to Audit and Scrutiny Committee 20 September 2021. PMF: Review underway which will conclude in 4th Qtr.
Corporate Transformation Programme - Fit for 2024	10	Review the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned.	Continuous audit approach as Chief Officer Audit & Risk attends Fit for 2024 Programme Board meetings. Assurance review of transformation governance scheduled 4th Quarter.
HR Policy Framework	15	Assess the HR Policy Framework (including Gifts & Hospitality and Register of Interests) and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines, including the rollout to employees.	Draft report issued 29 September 2021. Final report issued 8 October 2021. Executive Summary reported to Audit and Scrutiny Committee on 22 November 2021.
Business Continuity	15	Review the process for setting, testing, reviewing and updating Business Continuity plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical (and other) services across the Council, that they are aligned with requirements and that they are fit for purpose (i.e. no critical single points of failure).	Draft report issued 29 October 2021. Final report issued 15 November 2021. Executive Summary reported to Audit and Scrutiny Committee on 22 November 2021.
Risk Management	10	Progress on the implementation of corporate risk management improvement actions including policy, strategy, training and toolkits.	Draft report issued 7 June 2021. Final report issued 10 June 2021. Executive Summary reported to Audit and Scrutiny Committee on 29 June 2021.
	145		

AUDIT	DAYS	COMMENTARY	STATUS
Financial Governance			
Financial Policy Framework	10	Assess the Financial Policy Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines, and any associated Codes of Practice, including the rollout to employees.	Scheduled 3rd Qtr
Grants incorporating Following the Public Pound	10	Review of authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of grant. Assess process against Following the Public Pound code of practice in support of securing best value.	Scheduled 3rd Qtr
Payroll	25	Compliance testing of controls at Service level, including Business World assurance work on Payroll processes.	Scheduled 4th Quarter as part of integrated audit of Business World Key Controls.
Sales to Cash	10	Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable. Business World assurance work on Sales to Cash processes.	Scheduled 4th Quarter as part of integrated audit of Business World Key Controls.
Procurement to Payment	25	Review of purchase to payment processes at Service level including authorisation to test compliance. Business World assurance work on Procure to Pay processes.	Scheduled 4th Quarter as part of integrated audit of Business World Key Controls. Some audit work ongoing as part of Contract and Supplier Management Portal Implementation.
Record to Report	15	Assurance work on Record to Report processes to determine if expected improved internal financial controls via the Business World ERP system are being achieved. Key controls work relating to core General Ledger and Management Reporting.	Scheduled 4th Quarter as part of integrated audit of Business World Key Controls.
	95		

AUDIT	DAYS	COMMENTARY	STATUS
ICT Governance			
Digital Strategy (b/f from 2020/21)	20	Ensure that the Digital Strategy is aligned to Council priorities and business requirements. Review of client relationship and contract management with CGI to assess compliance with Service Delivery and terms and conditions.	Scheduled 3rd Qtr
	20		

AUDIT	DAYS	COMMENTARY	STATUS
Internal Controls			
Schools Financial and Business Administration Processes	40	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments including evaluation of the systems in place to set and monitor DSM budgets.	Scheduled 3rd Qtr
Mental Health Services (Adults & Children) (b/f from 2020/21)	15	Assess the governance arrangements in place to commission specialist mental health services to promote closer integration and partnership working to meet the needs of people with mental health needs. Ensure there is sound budgetary control in place.	Scheduled 4th Qtr
Justice (b/f from 2020/21)	20	Assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations.	Scheduled 3rd Qtr
Homelessness - Temporary Accommodation (b/f from 2020/21)	15	Review the rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation, including the provision, funding and costs associated with providing accommodation for homeless clients. Review progress with Self-Evaluation assessment.	Draft report issued 26 October 2021. Final report issued 11 November 2021. Executive Summary reported to Audit and Scrutiny Committee on 22 November 2021.
Waste & Recycling Services (b/f from 2020/21)	25	Ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services.	Scheduled 3rd Qtr
Parks & Environment (b/f from 2020/21)	10	Procedures and controls are in place to provide for efficient and effective use of operational resources in Parks & Environment pertaining to the Cemeteries and Burials service delivery.	Draft report issued 11 June 2021. Final report issued 21 June 2021. Executive Summary reported to Audit and Scrutiny Committee on 29 June 2021.
Assessors	10	There are adequate controls to ensure that responsibilities are discharged appropriately to provide and maintain the valuation roll and to ensure timely and correct value assessment of properties to meet required standards and practices.	Scheduled 3rd Qtr
Scottish Government Support Grants	20	Assess the adequacy of operational processes in place to administer the payment of Scottish Government Business Support Grants to ensure that they are appropriate and consistent.	Draft report issued 20 August 2021. Final report issued 13 September 2021. Executive Summary reported to Audit and Scrutiny Committee on 20 September 2021.
Registration Service	10	Assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income.	Scheduled 3rd Qtr
Central Schools	10	Review the processes and procedures for the provision of non-contact Teacher time in Primary Schools, including peripatetic and supply staff, to ensure the efficient and effective use of resources.	Scheduled 3rd Qtr
Community Safety (Community Action Team)	10	Review of operational and financial controls in place for the effective delivery of services and use of resources.	Draft report issued 02 November 2021. Final report issued 09 November 2021. Executive Summary reported to Audit and Scrutiny Committee on 22 November 2021.
	185		

AUDIT	DAYS	COMMENTARY	STATUS
Asset Management			
IT Asset Management	10	Review of systems, processes and controls that are in place to ensure complete and accurate records of all IT assets that underpin the IT Asset Management Plan to deliver the Council's strategies, plans and priorities.	Scheduled 3rd Qtr
Capital Investment	10	Review the governance arrangements in place for capital planning and investment including strategic asset management plans to ensure these are aligned to Council priorities and business requirements.	Scheduled 3rd Qtr
Economic Development Industrial Property	15	Assess the corporate governance and financial governance arrangements relating to Industrial property estate, including strategy, processes, and performance.	Scheduled 3rd Qtr
Roads Asset Management (b/f from 2020/21)	20	Assess that the Council has a structured framework for Roads Asset Management (roads, bridges, footways, lighting), including an inspection programme and management information and reporting, to demonstrate efficient and effective use of resources.	Scheduled 4th Qtr
	55		

AUDIT	DAYS	COMMENTARY	STATUS
Legislative & Other Compliance			
Jedburgh / Hawick Conservation Area Regeneration Scheme (CARS) (b/f from 2020/21)	20	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.	Draft reports issued 17 / 14 June 2021 respectively. Final reports issued 21 June 2021. Executive Summaries reported to Audit and Scrutiny Committee on 29 June 2021.
EU Funded Programmes (LEADER and European Maritime Fisheries Fund)	10	Annual audits of EU grant-funded programmes under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations.	Draft report issued 26 October 2021. Final report issued 01 November 2021. Executive Summary reported to Audit and Scrutiny Committee on 22 November 2021.
Sustainable Environment (b/f from 2020/21)	20	Assess progress with the development of new governance arrangements and action plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility.	Scheduled 3rd Qtr
	50		

AUDIT	DAYS	COMMENTARY	STATUS
Consultancy			
Advice	10	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.	Ongoing. During first 6 months provided comments on policies under review (School Fund, Income Management, Debt Recovery).
Critical Friend Consultancy	75	In its 'critical friend' role provide: internal challenge and quality assurance on a sample of programmes and projects involving major change and systems implementation; provide independent challenge of the evidence to support improvement; and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.	Ongoing provision of 'critical friend' internal challenge and assurance through engagement in various forums including Fit for 2024 Transformation Programme Board, Information Governance Group, Social Work Performance Board, Social Work Review Delivery Group, Commissioned Services Savings Delivery Group.
	85		

AUDIT	DAYS	COMMENTARY	STATUS
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Other

Contingency	15	Carry out investigations and other reactive work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.	
Follow-Up	20	Monitor progress with implementation of Internal Audit recommendations and ensure that Management Actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance.	Follow up Review of Completed Internal Audit Recommendations to Audit and Scrutiny Committee on 29 June 2021. Follow-Up Review of In Progress Internal Audit Recommendations scheduled 3rd Quarter. Quarterly updates to Corporate Management Team.
Counter Fraud	40	Provide intelligence via data sharing requests from Police Scotland, and submission of data sets and case management of data matches arising from the Cabinet Office / Audit Scotland-led National Fraud Initiative (NFI) exercise.	Ongoing though delay in case management of NFI data matches due to resources.
PSIAS Self-Assessment	10	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to CMT and the Audit and Scrutiny Committee.	Scheduled 4th Qtr. Findings will be outlined in Internal Audit Annual Assurance Report 2021/22.
Audit and Scrutiny Committee Self-Assessment	5	Provide assistance to Chair of the Audit and Scrutiny Committee in undertaking a self-assessment of the committee against the CIPFA best practice guidance.	The Chairman presented the Audit and Scrutiny Committee Annual Report 2020/21 (Audit functions) to Council on 27 May 2021. The 2021/22 self-assessment is scheduled 4th Qtr.
Integrity Group and Serious Organised Crime Group	5	Attend and provide support to the Integrity Group and the Serious and Organised Crime Group.	Integrity Group meet every 6 months. No meetings to date in 2021/22 of Serious Organised Crime Group.
Attendance at Boards / Committees	10	Prepare for and attend Audit and Scrutiny Committee meetings and other Boards / Committees as relevant.	Ongoing
Administration of Audit Scotland Reports	2	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the relevant Committees.	Ongoing
Audit Planning for 2022/23	8	Develop and consult on proposed coverage within the Internal Audit Annual Plan 2022/23.	Scheduled 4th Qtr.
	115		

SBC Total	750
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AUDIT	DAYS	COMMENTARY	STATUS
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Non SBC

Scottish Borders Pension Fund	5	To be determined and agreed with Pension Fund Committee and Management for review of governance of pension fund and provision of annual governance statement.	SBC Pension Fund Internal Audit Annual Plan 2021/22 approved by Joint Pension Fund Board and Committee on 4 March 2021. Audit work ongoing. Reports will be presented to Joint Pension Fund Board and Committee.
Scottish Borders Health and Social Care Integration Joint Board	45	To be determined and agreed by the Scottish Borders Health and Social Care Integration Joint Board for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.	SBIJB Internal Audit Annual Plan 2021/22 approved by SBIJB Audit Committee on 8 March 2021. Audit work ongoing. Reports will be presented to SBIJB Audit Committee.
	50		

Overall Total	800
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INTERNAL AUDIT WORK TO OCTOBER 2021

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE
22 November 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 28 August to 5 November 2021 associated with the delivery of the approved Internal Audit Annual Plan 2021/22 is detailed in this report. A total of 5 final Internal Audit reports have been issued. There were 4 recommendations made associated with 1 of the reports (4 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 28 August to 5 November 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 28 August to 5 November 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:
- HR Policy Framework
 - Business Continuity
 - Community Safety (Community Action Team)
 - EU Funded Programme (LEADER)
 - Homelessness
- 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
Performance Management Framework	Testing underway
Digital Strategy (b/f from 2020/21)	Testing underway
Sustainable Environment	Testing underway
Grants incl. Following the Public Pound	Testing underway
Justice	Audit Assignment issued
Registration Service	Audit Assignment issued
Schools	Audit Assignment issued
Waste & Recycling Services	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, Sustainable Development Core Group).
- b) 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.
- c) The Chief Officer Audit & Risk joined CIIA Local Authority Forum and webinars on the topics of Counter Fraud, Risk in Focus 2022, Culture, and EDI to share good practice and to keep knowledge of new Internal Audit developments up to date.
- d) The Principal Internal Auditor accessed CIIA webinars on: Risk in Focus 2022; Internal Audit Planning; Assurance Mapping; Cyber Security; 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	4
Low	0
Sub-total reported this period	4
Previously reported	6
Total	10
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

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 20 September 2021

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APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: HR Policy Framework</p> <p>No: 019/001</p> <p>Date issued: 30 September 2021 Draft; 08 October 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the HR Policy Framework (including Gifts & Hospitality and Register of Interests) and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines, including the rollout to employees.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • The HR service has adapted and implemented new HR policies and procedures to suit the new circumstances with the Covid pandemic. • There is a comprehensive revision timetable for the updating of HR policies. • All new and revised HR policies now follow a House Style. <p>The timetable showed 48 listed policies with 15 of them overdue for revision / updating. Whilst the reason for some of the delays can be attributed to waiting on information and guidance from other organisations, other delays are due to a lack of dedicated resource and conflicting priorities.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement as current arrangements could undermine the achievement of objectives, such as: catch-up on the backlog of overdue reviews; exploring options for Gifts & Hospitality Registers and Registers of Interest being included in a future Business World system enhancement; and exploring the capabilities of the Intranet with regards to its search facility and updating of version control details. During the audit we have discussed these improvements with relevant Managers. At draft report stage, a commitment has been made by Management to progress these in due course to ensure continuous improvement.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The Management Actions, associated with the improvements that have been discussed during the audit, will be followed up by Internal Audit by the end of March 2022.</p>

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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Business Continuity</p> <p>No: 030/004</p> <p>Date issued: 29 October 2021 Draft; 15 November 2021 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the review was to assess the process for setting, testing, reviewing and updating Business Continuity plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical services across the Council, that they are aligned with needs, and that they are fit for purpose.</p> <p>The Covid pandemic has been pervasive, simultaneously impacting employees, suppliers and customers and for a duration previously not considered a possibility. The Covid pandemic responses, which exhibits elements of Business Continuity, has successfully navigated the Council through this very serious crisis and demonstrated the ability to adapt and innovate in extreme circumstances. Our audit is focussed on the Business Continuity Management System and not on responses to the Covid pandemic.</p> <p>The 'Business Continuity function' within Emergency Planning team presently lacks sufficient resource to support all Managers across Council Services to effectively manage and maintain up to date and robust Business Continuity Plans (BCPs) and prevent critical single points of failure.</p> <p>The response to the Covid pandemic has changed the ways of working beyond that which current BCPs could reasonably have envisaged. Some changes are likely to be permanent and most BCPs will require revision to reflect these changes. Managers responsible for the application of business continuity management in their Services lack the training and expertise to develop their BCPs. They have access to guidance on the Council's intranet site (from 2013) but presently cannot be supported beyond this.</p> <p>CGI produced a draft IT Disaster Recovery plan in 2018. In the case of systems operated under the contract with CGI, there has been no full blown Disaster Recovery testing during the term of their contract. Following conclusion of the ongoing Data Migration project the draft plan will be updated, finalised and tested.</p>	0	4	0	<p>Emergency Planning have accepted the factual accuracy of the report and its findings, and agreed actions on which they will lead on the Business Continuity Management Framework; work is underway to address staff resourcing. Full implementation of the improvements will require engagement by Service Managers who are responsible for the application of Business Continuity policy and practices.</p> <p>Internal Audit will be available as a critical friend to follow-up on these developments.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Business Continuity (cont'd)	<p>A programme of testing has not been developed to validate over time the effectiveness of Business Continuity Plans and solutions. There has been no testing exercises undertaken for at least the last five years and consequently any necessary changes and improvements to business continuity processes have not have been identified. Lessons learned from the Covid pandemic response provide some opportunity to make improvements.</p> <p>Internal Audit are able to provide limited assurance on the Business Continuity Management Framework. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives.</p> <p>We have made the following recommendations which are designed to build resource capacity and capture the learning from the Covid pandemic response within the formal Business Continuity Management Framework:</p> <ul style="list-style-type: none"> • The Business Continuity Management Policy should be reviewed and updated. (Medium) • Continuity2 system should be upgraded or replaced with a modern alternative. (Medium) • The level of resources available for Business Continuity should be urgently reviewed in order to effectively manage and maintain up to date and robust BCPs and prevent critical single points of failure. Managers within Services, responsible for the application of business continuity management, should be provided with training and support to develop and maintain their Business Continuity Plans. (Medium) • A programme of testing should be developed to validate over time the effectiveness of Business Continuity Plans. Lessons learned from testing and the Covid responses should be fed back into business continuity processes and plans. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Community Safety (Community Action Team)</p> <p>No: 050/006</p> <p>Date issued: 02 November 2021 Draft; 09 November 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the operational and financial controls in place for the effective delivery of services and use of resources within the Community Action Team (CAT) as part of the Community Safety Service.</p> <p>The introduction of the Antisocial Behaviour etc. (Scotland) Act 2004 (the 2004 Act) placed a legal requirement upon local authorities and police to work in partnership to develop strategies specifically to tackle antisocial behaviour.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Good practices are in place to ensure all incidents are addressed and agreed tasks taken forward with the appropriate parties, developing close cooperation between the various bodies involved. <p>SLAs are in place outlining the agreements between Police Scotland and Scottish Borders Council on the operation of the CAT; our review found that the SLAs are operating as agreed.</p> <p>Performance is reported monthly to the Police CAT Strategic Oversight Group and quarterly to SBC's Corporate Management Team and the Executive Committee, where summary statistics highlight decisions made and the actions taken to address issues assisting in deterring crime and disorder. The Police also use this information for reporting to the Police, Fire and Safer Communities Scrutiny Board on a regular basis.</p> <p>Regular budget and service meetings are in place with a clear understanding of the service needs.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. We have made no recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The CAT team is an area of development and therefore improvements will arise as part of ongoing service evaluation.</p> <p>The wider governance arrangements will be covered within the Internal Audit review on Justice which is underway.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: EU Funded Programme LEADER</p> <p>No: 154/029</p> <p>Date issued: 26 October 2021 Draft; 01 November 2021 Final</p> <p>Level of Assurance: Substantial Assurance that the Council, as Accountable Body, has complied with the requirements of the LEADER SLA.</p>	<p>The purpose of the review was to perform the annual audit of EU grant-funded programme for 2014-2020, Liaison Entre Actions de Développement de l'Économie Rurale (LEADER), under the terms of the Service Level Agreement (SLA) to assess compliance with the requirements of the SLA and the relevant EC Regulations.</p> <p>Internal Audit tested all claims made during the period 16 October 2020 and 15 October 2021: four claims of project costs totalling £620k; and four claims for the reimbursement of staff costs totalling £170k. Testing in all cases confirmed satisfactory evidence to substantiate reimbursement of project and staff costs, and claims processing is well administered.</p> <p>Internal Audit provide Substantial Assurance that the Council, as Accountable Body, has complied with the requirements of the LEADER SLA.</p> <p>This is an area of ongoing high risk owing to the potential for disallowance of costs and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts). Internal Audit cannot provide assurance that this level of compliance with the LEADER SLA will be enough to reduce the risk of disallowance and financial penalty. The risk of disallowance of costs for non-compliance with funding conditions and the subsequent fines or penalties that may be imposed on the Council, is no longer specifically noted on neither the current Economic Development Risk Register (currently under review) nor the current Financial Strategy Risk Register (March 2021). Further discussions on this has resulted in relevant Management agreeing that the risk of disallowance of costs for any future grant funding will be included within these Risk Registers.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The annual submission to the Scottish Government on 8 November 2021 included the findings from this Internal Audit report.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Homelessness</p> <p>No: 172/011</p> <p>Date issued: 26 October 2021 Draft; 11 November 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to review the progress with rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation, including the provision, funding and costs associated with providing accommodation for homeless clients, and to review progress with the Self-Evaluation assessment.</p> <p>There has been considerable progress made on the Self-Evaluation assessment and Improvement Plan actions over the last 18 months. Some areas of this assessment are still in development and target dates may need to be revised to ensure the action plan remains achievable. There is currently no risk register for Homelessness Services, though Management agreed during the audit to develop this as part of the Self-Evaluation.</p> <p>Work is progressing with the implementation of Northgate Phase 2 which will become the primary case management database system for Homelessness Services, with a view to completion of the build of the system by end March 2022.</p> <p>The Crisis Intervention Fund (CIF) was launched as a pilot process in February 2021 to assist tenants that have rent arrears and are at risk of becoming homeless. The applications process, case review and progress, and expenditure are regularly monitored during the early stages of this programme. The CIF is part of the Scottish Borders Rapid Rehousing Transition Plan and funding for the CIF has been provided from the Scottish Government's Rapid Rehousing Transition Plan funding.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Management improvement actions are underway. We have made no recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>A further audit on Homelessness will be included within the Internal Audit plan for 2022/23 as an opportunity to continue to review progress with these service developments.</p>

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PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

22 November 2021

1 PURPOSE AND SUMMARY

- 1.1 The purpose of the report is to provide an update to Members of the Audit and Scrutiny Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2020/21 and previous years.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

2 RECOMMENDATIONS

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

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana Risk (previously Covalent), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council. An update report on Progress with Implementation of Internal Audit Recommendations was presented to the Audit and Scrutiny Committee on 23 November 2020. Furthermore, a summary of the status of recommendations was presented within the Internal Audit Annual Assurance Report 2020/21 presented to the Audit and Scrutiny Committee on 10 May 2021, and a Follow-Up Review of Completed Internal Audit Recommendations was presented to the Audit and Scrutiny Committee on 29 June 2021.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Scrutiny Committee.
- 3.6 The Audit and Scrutiny Committee decision "Requested that the Corporate Management Team determine an escalation process to address those Internal Audit recommendations not completed within the agreed timescale". In response, quarterly update reports on Internal Audit recommendations have been presented to the Corporate Management Team on 20 January, 21 April, and 11 August 2021 to enhance the Management monitoring and oversight of progress.

4 PROGRESS UPDATE

4.1 The following table highlights the current status (as at 12 November 2021) of Internal Audit recommendations from current and previous years:

Year	Total	Implemented	Not Yet Due	Overdue
2018/19	4 + 1 SB Cares*	4	1*	0
2019/20	40	36	4	0
2020/21	8	5	3	0
2021/22 to Sept	6	1	5	0

4.2 Further details on those Internal Audit recommendations that are not yet fully implemented are shown in Appendix 1.

4.3 There are occasions when it is necessary to grant extra time to complete recommendations. Some Managers have proposed extensions to due dates which have been approved by Internal Audit based on the further work required to implement these recommendations in full, as highlighted in the Appendix. The Pentana Risk system has been updated accordingly.

4.4 Internal Audit will complete an annual audit in the fourth quarter of each financial year on a sample of Internal Audit actions that have been completed within the preceding calendar year. The purpose of this Follow-up activity will be to check the evidence that improvement action has been undertaken and to ensure that the new controls or governance had the desired effect on improving internal control and governance. The findings will be presented to the Corporate Management Team and then to the Audit and Scrutiny Committee. This practice is to provide additional assurance on the evidence of improvement in internal controls, risk management and governance as part of its continuous improvement processes.

4.5 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2021/22 for Scottish Borders Council which is scheduled for presentation to the Audit and Scrutiny Committee in June 2022.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

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

5.3 Integrated Impact Assessment

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).

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

6.2 The 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)

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Sue Holmes	Principal Internal Auditor Tel 01835 825556










Background Papers: Appropriate Internal Audit files and Pentana system













Previous Minute Reference: Audit and Scrutiny Committee 29 June 2021


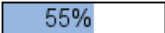



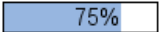



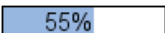


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Code	Title	Risk Rating	Status	Progress 12.11.21	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.21
SB Cares (Final Report Issued 13 September 2019)									
AUDIT.086	SB Cares Management should carry out a further review of the Call Confirm system to ascertain if carer's mileage can be recorded as well as hours to facilitate checking.	Medium	 In Progress	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	31/10/19	31/12/21	 Director Strategic Commissioning & Partnerships	 Service Development Manager	Last update 28 April 2021: This audit recommendation will be addressed through implementation of Total Mobile which is replacing Call Confirm. We do not currently know when this system will be implemented or if this action will be included in scope of Phase 1 work. As this project is led by CGI currently unable to commit to any completion date. Due date extension agreed by Internal Audit to 31 December 2021 from 30 June 2020 to enable this to be progressed.
153/005 Building Standards – Emergency Works (Final Report Issued 10 September 2019)									
AUDIT.090	(2019 IA 153-005 Rec 5.1) The master suspense spreadsheet should be improved and reconciled to both the Uniform and Business World systems. More checks are required to ensure that all costs are invoiced.	Medium	 In Progress	<div style="width: 95%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 95%	31/03/20	31/12/21	 Chief Planning Officer	 Lead Officer Building Standards	Last update 11 November 2021: Significant progress has been made and final meetings scheduled with Internal Audit to conclude this action. Due date extension from 31 August to 31 December 2021 agreed with Internal Audit.
AUDIT.094	(2019 IA 153-005 Rec 5.5) Reports should be made available to Senior Management on the number of cases, the amount invoiced and the amount not yet received.		 In Progress	<div style="width: 95%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 95%	31/03/20	31/12/21	 Chief Planning Officer	 Lead Officer Building Standards	Last update 11 November 2021: Significant progress has been made and meetings and future meetings with Internal Audit colleagues to finalise recommendation. Due date extension from 31 August to 31 December 2021 agreed with Internal Audit.

Code	Title	Risk Rating	Status	Progress 12.11.21	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.21
<u>016/013a Performance Management – LGBF (Final Report Issued 10 September 2019)</u>									
AUDIT.095	(2019 IA 016-013a Rec 5.1) Performance Management should be included as an agenda item on Department Management Team meetings to ensure that both data and insight are recorded and reported within timescales requested by the Performance Team for performance reporting purposes. As system and organisational developments continue during 2019/20 there is a need to ensure performance monitoring and reporting is accurate, robust and provided on time.	Medium	 In Progress	<div style="width: 10%;"><div style="width: 10%;"></div></div> 10%	30/09/19	31/12/21	 Director People, Performance & Change	 Director People, Performance & Change	Update – Internal Audit 14 September 2021: To reflect the recent CMT restructure the ownership of this action has been transferred from Jenni Craig to Clair Hepburn to reflect the latter's lead responsibility for the performance management framework within the Council. The due date has been extended from 30 September 2020 to 31 December 2021 to allow appropriate time to apply the required change.
<u>150/009 Developer Contributions/ Development Management Fees (Final Report Issued 31 January 2020)</u>									
AUDIT.106	(2019 IA 150-009 Rec 5.1) Operating procedures, relevant to both the Planning team and the Service areas, should reflect current Legislation and be drafted and/or updated to reflect current working practices.	Medium	 In progress	<div style="width: 30%;"><div style="width: 30%;"></div></div> 30%	30/06/20	31/12/21	 Planning and Development Standards Manager	 Lead Planning Officer	Update – Internal Audit 14 September 2021: Due date extension agreed by Internal Audit to 31 December 2021 from 30 June 2021 to enable actions to be progressed.
<u>127/033 Schools Financial and Business Administration (Final Report Issued 8 February 2021)</u>									
AUDIT.136	(2020 IA 127-033 Rec 5.1) Petty cash amounts should be reviewed across the school establishment and reduced or removed as appropriate in tandem with the issue of purchase cards. The number of imprest holders should also be reviewed and reconciliations saved for those remaining.	Low	 In Progress	<div style="width: 60%;"><div style="width: 60%;"></div></div> 60%	31/12/21	31/12/21	 Director Resilient Communities	 Business & Performance Manager	Last Update: 30 July 2021 Review of petty cash has been undertaken and Petty Cash is being removed or reduced where purchase cards are required.
AUDIT.137	(2020 IA 127-033 Rec 5.2) The recording, reporting, monitoring and governance of the school fund should be improved: • Develop a new School Fund electronic file to provide greater assurance, control, consistency and data analytics. • All schools should be reminded of the standard procedures including the requirement for audited accounts to be completed and saved in the appropriate folders.	Medium	 In Progress	<div style="width: 80%;"><div style="width: 80%;"></div></div> 80%	31/12/21	31/12/21	 Director Resilient Communities	 Business & Performance Manager	Last update: 30 August 2021 Revised guidance issued to all line management staff. Discussed key changes at Business Managers meeting on 26/08/2021 for cascading to all staff. Advised to be discussed at all team meeting and 121's to ensure compliance and engagement.

Code	Title	Risk Rating	Status	Progress 12.11.21	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.21
181/99/001 LDS Financial Management (Final Report Issued 30 April 2021)									
AUDIT.145	(2020 IA 181-999-001 Rec 5.1) The LDS Manager should have greater clarity of what client volume and complexity of needs can be afforded within the available budget, including the delivery of savings. A project plan timeline and measures for delivery of savings should be developed and implemented. Budget assumptions should be agreed by LDS & Finance.	Medium	 In Progress		31/07/21	31/01/22	 Chief Officer Health and Social Care Integration	 LDS Manager	Last update 29 September 2021: LDS Manager, gave verbal update in private to Audit and Scrutiny Committee 20 September 2021, outlining progress with the 11 point Action Plan to address the Internal Audit recommendation (Points 1,2,3,6,7,10 completed). Due date amended from 31 July 2021 to 31 January 2022 to reflect the Action Plan timescales. Further progress update to Audit and Scrutiny Committee in 4 months' time.
008/005 Risk Management (Final Report Issued 10 June 2021)									
AUDIT.142	(2021 IA 008-005 Rec 5.1) The review and update of the Council's Risk Management Strategy and Risk Management Policy, to reflect best practice and current conditions, should include: <ul style="list-style-type: none"> The Council's appetite for risk particularly when taking on high and critical risks over which it has control given current financial constraints. Quantification of the Council's risk appetite, tolerance and capacity in order to gauge whether the council is tolerating risk beyond its reasonable capacity to do so. Risk escalation and risk delegation procedures. Any improvements arising from the 2020 Risk Management Health Check.	Medium	 In Progress		30/11/21	30/11/21	 Chief Officer Audit & Risk	 Corporate Risk Officer	Last update 10 November 2021: Engagement with CMT & SMTs during August & September 2021. The Risk Management Policy & Strategy have been reviewed and refreshed to reflect the Risk Management developments that have been introduced during the last 3 years and improvements identified during the Risk Management Health Check that was carried out in early 2020 and the Internal Audit review that was completed in May 2021. These are out for consultation in advance of their consideration by Audit and Scrutiny Committee 22 November 2021.
AUDIT.143	(2021 IA 008-005 Rec 5.2) Refresh and update training materials for Risk Management (done in conjunction with the Risk Management Strategy and Policy review and update)	Medium	 In Progress		31/12/21	31/12/21	 Chief Officer Audit & Risk	 Corporate Risk Officer	Last update 11 October 2021: Development of the slide deck for Commercial Awareness Week (w/c 15.11.2021) will form part of the learning materials for managers specifically on contract risk management. There is now a need to complete the suite of tools that were started by the previous Corporate Risk Officer in direct relation to contract management and publish these on the Intranet.

Code	Title	Risk Rating	Status	Progress 12.11.21	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.21
087/001 Scottish Government Support Grants (Final Report Issued 13 September 2021)									
AUDIT.146	(2021 IA 087-001 Rec 5.1) 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	 In Progress	 95%	31/10/21	31/01/22	 Director Resilient Communities	 CASS Development & Support Manager	Last update 5 November 2021: A template document has been agreed with Internal Audit and will be shared within CASS as a working document going forward. Workshops have still to be held with CASS staff and will be on schedule to be completed by 31/01/22.
AUDIT.147	(2021 IA 087-001 Rec 5.2) Management should ensure that application forms include all specific and relevant information required to establish eligibility for grants and provides the appropriate audit trail.	Medium	 In Progress	 98%	30/11/21	30/11/21	 Director Resilient Communities	 CASS Development & Support Manager	Last update 10 November 2021: A template document (titled History Sheet Record template) has been agreed with Internal Audit and will be shared within CASS as a working document going forward, which will provide the necessary audit trail for future schemes. This covers, initiation phase, criteria mapping, history log, application form data and useful information. The Development Team have created a document titled 'Jadu Content Strategy' which is used for any new work in Jadu. This includes and covers guidance and best practice on form creation.
AUDIT.148	(2021 IA 087-001 Rec 5.3) Management should ensure that staff are able to provide the correct information and supporting evidence to Internal Audit. Staff should also understand and be able to explain their answers, with Management support if required.	Medium	 In Progress	 90%	31/01/22	31/01/22	 Director Resilient Communities	 CASS Development & Support Manager	Last update 10 November 2021: The completion of the template History Record, covering the whole life cycle of the scheme will ensure this is documented allowing a clear audit trail.

RISK MANAGEMENT POLICY AND STRATEGY 2021-2024

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

22 November 2021

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to members of the Audit and Scrutiny Committee a revised Risk Management Policy statement and Risk Management Strategy for consideration and endorsement in advance of their presentation to Council for approval.**
- 1.2 Effective Risk Management is one of the foundations of effective governance and is recognised in the Council's Local Code of Corporate Governance. Compliance with the principles of sound Corporate Governance requires the Council to adopt a coherent and systematic approach to the management of risks that it faces every day. Better and more assured risk management will bring many benefits to the Council and the people it serves.
- 1.3 Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks to the achievement of the Council's objectives. Internal Audit is required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk. Part of the Audit and Scrutiny Committee's role (Audit function) is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 1.4 A revised Risk Management Policy statement (Appendix 1) and 3-year Risk Management Strategy (Appendix 2) are included for consideration and endorsement by the Audit and Scrutiny Committee in advance of their presentation to Council for approval. This will enable the Council to refine its approach to Risk Management and embed these key aspects into the management practices of the Council.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Considers the revised Risk Management Policy Statement (Appendix 1) and Risk Management Strategy (Appendix 2) and endorses them for full Council approval;**
 - b) Acknowledges the role and responsibilities of the Audit and Scrutiny Committee in the Risk Management Policy; and**
 - c) Notes the reporting for assurance purposes on efficacy of Risk Management arrangements in the Risk Management Policy.**

3 BACKGROUND

- 3.1 Effective Risk Management is one of the foundations of effective governance as stated in the Council's Local Code of Corporate Governance (approved by Council, June 2018). Compliance with the principles of sound corporate governance requires the Council to adopt a coherent and systematic approach to the management of the risks that it faces every day. Better and more assured risk management will bring many benefits to the Council and the people it serves.
- 3.2 Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks that potentially endanger or have a detrimental effect upon the achievement of the Council's objectives and its people, property, reputation and financial stability whether through core service delivery or through a programme of change. Management continue to be supported by the Corporate Risk Officer to apply the risk management process. Risk registers at Corporate and Service levels are recorded in Pentana, the Council's performance management system.
- 3.3 Internal Audit is required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk, and to make recommendations designed to improve the management and mitigation of risks, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
- 3.4 Part of the Audit and Scrutiny Committee's role (Audit function) is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.

4 RISK MANAGEMENT POLICY STATEMENT

- 4.1 The Council's Risk Management Policy Statement at Appendix 1 outlines the key objectives and states the roles and responsibilities in managing risks. Management have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks.
- 4.2 The Council's Risk Management Policy has been reviewed and refreshed to reflect the Risk Management developments that have been introduced during the last 3 years and improvements identified during the Risk Management Health Check that was carried out in early 2020 and the Internal Audit review that was completed in May 2021.
- 4.3 The main changes in the Council's Risk Management Policy Statement can be summarised as follows:
 - Re-ordering one section to ensure its prominence to reflect its importance (Roles and Responsibilities section);
 - Integration of two sections, Risk Appetite and Capacity and Risk Tolerance and Thresholds, to avoid duplication and incorporate clarity on active management and mitigation (Risk Appetite, Capacity and Tolerance section);
 - Additional information to provide clarity of de-escalation arrangements, and removal of specific detail on levels of escalation, delegation and de-escalation which will be included in the Risk Management Process Guide for managers (Procedure for Escalation, Delegation and De-Escalation section);

- Inclusion of the frequency of risk review proportionate to the risk rating (Risk Management Process section);
- Additional information to provide clarity of reporting to ensure fulfilment of roles and responsibilities set within the Policy and specify the content of the annual report to ensure it reflects the wider aspects of the Council's Risk Management framework for assurance purposes i.e. addition of an overview of Risk Management activity during the year and oversight of the Corporate Risk Register (Reporting for Assurance Purposes section); and
- Integration of two sections, Quality Assurance and Review, to avoid duplication and incorporate the sources of assurance and lessons learned in the review process (Monitoring and Review section).

5 RISK MANAGEMENT STRATEGY

- 5.1 The Risk Management Strategy at Appendix 2 outlines the approach that will be adopted within Scottish Borders Council to systematically identify, analyse, evaluate, control, record and monitor risks, in support of the Risk Management Policy Statement.
- 5.2 The Council's Risk Management Strategy is based upon the national standard Management of Risk (M o R). The strategy is underpinned by:
- A clear and widely understood structure to secure implementation
 - A commitment to achievement
 - Appropriate training arrangements
 - Regular monitoring and reporting arrangements
- 5.3 The Council's Risk Management Strategy has been reviewed and refreshed to reflect the Risk Management developments that have been introduced during the last 3 years and improvements identified during the Risk Management Healthcheck that was carried out in early 2020 and the Internal Audit review that was completed in May 2021.
- 5.4 The main changes in the Council's Risk Management Strategy can be summarised as follows:
- Inclusion of the change in focus of the revised Risk Management Strategy arising from the Risk Management Healthcheck 2020 and the Internal Audit review 2021 (Introduction section);
 - Amendment from 3 Risk Management levels (Corporate, Directorate, Operational) to 2 levels (Corporate and Service) to ensure that Risk Registers are aligned to the business planning and performance management process (Management Arrangements section);
 - Inclusion of references to risk escalation, delegation and de-escalation activity, the approach to managing risk within the Council's risk appetite, tolerance and capacity, the frequency of risk review, and the support to Management provided by the Corporate Risk Officer to provide greater clarity and consistency in the process and to reflect roles and responsibilities (Management Arrangements section);
 - Amendments to the arrangements for the provision of Risk Management training to Service Managers to reflect the new ways of working and the support to Management provided by the Corporate Risk Officer (Training and Awareness section); and
 - Inclusion of the use of a risk maturity model as part of the annual assessment to check the efficacy of the Council's risk management arrangements and to facilitate continuous improvement (Monitoring and Review section).

6 IMPLICATIONS

6.1 Financial

There are no financial implications as a direct result of the report. The Corporate Risk Officer resource costs are contained within budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

6.2 Risk and Mitigations

Roles and responsibilities for managing risks within the Council are set out in the Risk Management Policy Statement. Management have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks. Monitoring of the application of the risk management framework across the Council is carried out by the Corporate Management Team, facilitated by the Corporate Risk Officer within the Audit & Risk service. Elected Member oversight is provided by the Audit and Scrutiny Committee.

The Risk Management Policy and Strategy reflect the Council's integrated approach to the management of risks and the independent assurance on its efficacy provided by Internal Audit.

6.3 Integrated Impact Assessment

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required. This revised Risk Management Policy statement and 3-year Risk Management Strategy will enable the Council to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process and ensuring that those contracted to deliver services on behalf of the Council and through partnership arrangements have robust risk management framework in place.

6.4 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 Risk Management Policy and Strategy is fundamental to the achievement of the Council's objectives, including its sustainable development goals.

6.5 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.

6.6 Rural Proofing

The revised Risk Management Policy and Strategy is unlikely to have a different impact in rural areas, based on completion of the checklist.

6.7 Data Protection Impact Statement

All Risk Management activity will be carried out in accordance with appropriate legislation; this includes the Data Protection Act 2018.

6.8 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.

7 CONSULTATION

- 7.1 The Corporate Management Team, which plays a key leadership role in establishing Risk Management behaviours within the organisation, its partners, suppliers and customers, has been consulted on this report and appendices (policy and strategy) and any comments received have been taken into account.
- 7.2 The 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
Emily Elder	Corporate Risk Officer

Background Papers: Appropriate Risk Management files

Previous Minute Reference: Audit and Scrutiny Committee 10 May 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 Emily.Elder@scotborders.gov.uk

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RISK MANAGEMENT POLICY STATEMENT

Introduction

Scottish Borders Council (SBC), like all organisations, faces a wide range of risks at all levels of the organisation. The aim of this policy is to communicate why risk management should be undertaken, provide a common risk management language and a description of the approach that will be adopted by SBC to manage its risks. This policy is supported by the Risk Management Process Guide and Risk Management Strategy which is based upon the Management of Risk (M_o_R) Guide and its associated framework, principles, approach and processes.

SBC understands that effective Risk Management is one of the foundations of effective Corporate Governance which has been adopted in its Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires SBC to adopt a coherent and systematic approach to the identification and effective management of the risks with the outcome that better and more assured risk management will bring many benefits to SBC and the people it serves.

SBC recognise that risk management should be aligned with corporate objectives and will therefore be considered within the business planning process. This ensures that the risks to achieving these objectives are identified and prioritised. The risk management landscape is dynamic and, as local authorities increasingly deliver services in alternative ways including commissioning and partnership arrangements, the spectrum of risks that SBC is exposed to also increases.

SBC will continue to systematically identify, analyse, evaluate, control, record and monitor those risks that potentially endanger or have a detrimental effect upon its people, property, reputation and financial sustainability whether through core service delivery or through a programme of change.

Roles and Responsibilities

The Council will continue to support its people to develop the appropriate skills and competencies to enable them to manage risk effectively.

Corporate Management Team (CMT)

CMT will act as risk champions, driving risk from the top down, ensuring all major decisions are subject to a risk assessment, and fostering a supportive culture where all members of staff are openly able to discuss and escalate risks to the appropriate level. CMT will regularly review the most significant risks threatening strategic objectives.

Senior Management

Senior Management will: ensure that they understand the risk policy, process and reporting requirements; ensure risk registers are compiled and maintained for each Service, Programme or Project; escalate risks as required by this policy; support internal and external audits; challenge the status of identified risks; and carry out the complete risk management process on all major activities.

Chief Officer Audit & Risk

The Chief Officer Audit & Risk will develop and maintain corporate risk management strategy, policy and procedures and ensure these are communicated effectively throughout the Council and that processes are in place to embed this in the Council's culture and working practices.

Corporate Risk Officer

The Corporate Risk Officer will support the management of risk by: ensuring that the processes and procedures are followed; ensuring that risk registers are in place and reviewed; preparing management reports; offering training and support; facilitating risk workshops; reviewing the Risk and Mitigations section of Committee Reports to ensure that full risk information is provided.

Audit and Scrutiny Committee

The Audit and Scrutiny Committee will oversee the adequacy and effectiveness of the Council's risk management arrangements.

Elected Members

Elected Members need to assure themselves that they have adequate information including risks and mitigations to ensure they are fully informed during decision-making at various Committees.

Risk Appetite, Capacity and Tolerance

Risk appetite is how much risk SBC is willing to accept. This will differ dependent on the perspective being assessed (Strategic long term, whether at Corporate or Service level; Programme/Project level medium term; or Operational short term). A consistent approach to identifying and analysing risk will be followed, and SBC's capacity to bear risk (e.g. level of insurance cover, financial reserves) will be considered to ensure that SBC, nor its stakeholders, are exposed to an unknown, unmanaged or unacceptable degree of risk i.e. High and Medium-High risks require active management and mitigation to manage down and maintain exposure at an acceptable level. This will be supported by the Risk Management Process Guide.

Risk tolerance will be determined by using a combination of the Risk Impact and Likelihood Matrix, as detailed in the Risk Management Process Guide; by the proximity of the risk; and by determining whether a risk needs to be managed at a higher level because of the impact if the risk materialises.

Procedure for Escalation, Delegation and De-Escalation

Escalation is the process whereby a risk has exceeded tolerance thresholds at the perspective in question and action or oversight is required at a more senior level. This could be because the impact if the risk materialises is too great to be managed at that level or because the risk is corporate wide. All managers have the responsibility to ensure that risks escalated to them are considered by following the Risk Escalation Procedure detailed in the Risk Management Process Guide. Escalated risks may be overseen at a higher level and actions to mitigate them delegated to another level within SBC or partner organisation. Once risk mitigation actions have had the desired effect to reduce the impact or oversight is no longer required at a more senior level, a risk may be de-escalated.

Risk Management Process

Risk management is not a one-off exercise. It is a continuous process because the decision-making processes it underpins are continuous. Risk management must be an integral part of all organisational activities within SBC, but not be over bureaucratic and a process for its own justification. To these ends it will be aligned with the business planning process and performance reporting schedule, and frequency of risk review will be proportionate to the risk rating. The process to be adopted is described in more detail in the Risk Management Process Guide.

When risk management will be implemented

Risk management will be applied to every level within SBC, including programmes and projects. It will be part of the decision-making process when developing and reviewing business plans and when considering alternative service delivery arrangements including partnership, arm's length external organisations and outsourcing.

Reporting for Assurance Purposes

All Corporate and Service Risk Registers will be recorded on the Pentana performance management system to enable reporting to CMT, Directors and Managers, as appropriate. Reporting, to support fulfilment of roles and responsibilities set within the Policy, will include:

- Quarterly risk management status report to CMT, including Corporate Risk Register review.
- Regular presentations by Directors to the Audit and Scrutiny Committee on the status of strategic risks facing the Council.
- A Risk Management Annual Report for assurance purposes to CMT and the Audit and Scrutiny Committee on the efficacy of the Council's risk management framework, an overview of risk management activity during the year, and oversight of the Corporate Risk Register.

Monitoring and Review

Risk management policies, procedures, strategies and plans will be reviewed annually to ensure their continued relevance and effectiveness. Assurances and any recommended areas for improvement received from Internal Audit and External Audit and best practice and lessons learned shared across the public sector on risk management will be considered as part of the review process. This policy will be subject to document control, version control, be reviewed at least annually, and be revised to reflect changes in legislation, risk management best practice, and significant changes in corporate governance.

Glossary of terms

For risk management to be effective all participants must speak the same language. A detailed glossary of terms is included in the Risk Management Process Guide.

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Risk Management Strategy

Introduction

Scottish Borders Council (SBC), like all organisations, faces a wide range of risks at all levels of the organisation. The Risk Management landscape is dynamic and, as local authorities increasingly moves towards alternative delivery of essential services and partnership arrangements, the spectrum of risks to which SBC is exposed also increases.

Senior Management are committed to minimising these risks and recognise that effective Risk Management is one of the foundations of effective Corporate Governance.

SBC has made substantial progress in embedding Risk Management and awareness within business processes, with established and effective links to all related aspects of the Council's governance, planning and service delivery operations.

The Council's approach to managing risk in this revised strategy is to build on foundations established and to reflect improvements arising from the Risk Management Healthcheck 2020 and Internal Audit review 2021, to provide greater clarity and consistency in the process. The focus will be to add value by aligning Risk Management to the business planning and performance management process, taking this opportunity during the Corporate Plan refresh and Service Plan creation. This will ensure that the risks to achieving corporate and service objectives will be systematically identified, analysed, evaluated, controlled and monitored.

The other key focus for this strategy is to ensure that those contracted to deliver services on behalf of the Council and through partnership arrangements, such as the Integration Joint Board, Live Borders, and CGI, have robust risk management framework in place. It is essential that the Council recognises that outsourcing services through contracts and commissioned services does not remove the statutory obligation and therefore the consequences of any failure of these arrangements.

The Council's strategy, supported by the Risk Management Process Guide (published on the Intranet), is based on the Management of Risk (M_o_R) Guide and its associated framework, principles, approach and processes.

Key Elements of Effective Risk Management

The effective management of risks requires a strategy that has been sanctioned by, and has the clear support of, the Corporate Management Team, Elected Members and Chief Officers. Such a strategy is underpinned by:

- A clear and widely understood structure to secure implementation
- A commitment to achievement
- Appropriate training arrangements
- Regular monitoring and reporting arrangements

Risk Management Objectives

The objectives of the Council's Risk Management Strategy are to:

- Embed Risk Management into the culture of the Council
- Manage risk in accordance with best practice
- Anticipate and respond to changing social, environmental and legislative requirements
- Prevent injury, damage and losses and reduce the cost of risk
- Raise awareness of the need for Risk Management by all those involved with the delivery of Council services both internal and external to the organisation
- Ensure there are adequate arrangements for compiling the Council's Annual Governance Statement with governance and Risk Management arrangements to support it

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for Risk Management and the Annual Governance Statement
- Providing opportunities for shared learning on Risk Management across the Council
- Offering a framework for allocating resources to identified priority risk areas
- Reinforcing the importance of effective Risk Management as part of the everyday work of employees by offering training
- Incorporating Risk Management into business planning and performance management
- Incorporating Risk Management considerations into partnership working and contractual arrangements
- Incorporating Risk Management considerations into the corporate programme and project management arrangements
- Regular monitoring arrangements and detailed reporting.

The Status of Risk Management

Risk Management is as much a part of the duties of Council managers as are the control of budgets and the deployment of staff and equipment to deliver services.

When making decisions the risks and mitigations associated with a proposal is as important a part of the matters to be considered by elected members as the costs of and return on investment or the staffing implications of a proposal. For this reason it is imperative that the Risk and Mitigations section of Committee Reports is completed accurately. To ensure this is the case, authors of reports should attend the Corporate Risk Management training course and the Corporate Risk Officer will provide comment when required. For their part, Elected Members should always ask for further details of the risks if it is not entirely clear what they are, in order to make well-informed decisions.

If the Council is to have a reasonable assurance that Risk Management is effectively in place it must be carried out in a systematic and structured manner and be subject to compliance testing and reporting. The inter-relationship between the Risk Management function and Internal Audit is crucial for this to be effective. This is demonstrated by the Internal Audit plan being informed by the highest areas of risk within SBC and in turn risks are identified or re-evaluated through Internal Audit reports and assurance activities.

Benefits

The real value of good Risk Management lies in the benefits it will deliver. Those benefits will be varied in their nature and extent and some might be more measurable than others, but they will all be important to the Council's reputation and ability to deliver improved and value for money public services. The benefits realised include:

- Improved business planning by focussing on the outcome not the process
- More informed decision making process
- Enhanced reputation and public confidence in its ability to deliver services
- Fewer unpleasant surprises and crises through early warning of problems
- More effective management of change
- Prioritisation of resources and better value for money
- Improved performance and achievement of objectives
- Demonstrated good governance
- Innovation, as Managers more confidently exploit new opportunities that will in turn improve the way services are delivered or reduce the cost of delivery

Management Arrangements

Risk Management is a fundamental part of corporate and service management. As such, it should be integrated with normal management processes.

As part of the business planning and performance management process risks will be identified and managed at 2 levels to reflect the varying perspectives:

- 1) Corporate Strategic – ensuring that the Council’s vision is implemented through the corporate priorities and strategies as stated in the Corporate Plan.
- 2) Service Strategic and Operational – transforming service strategy into action and maintaining appropriate levels of service provision.

At each respective level the risk owners have primary responsibility for the management of all risks:

Level 1 – Corporate Management including Chief Executive and Directors

Level 2 – Chief Officers / Service Managers

This arrangement clearly identifies accountability at the specific management levels to ensure that risk is being managed and effective monitoring is being carried out as part of the performance management process at the appropriate level throughout the Council.

This will also aid escalation of risks, to ensure oversight and/or action at a higher level, and de-escalation. Risks or actions to mitigate risks could be delegated to other levels. This will also simplify the approach to managing risks within the Council’s risk appetite, tolerance and capacity.

Risk Management is not a one-off process. It is a continuous process because the decision-making arrangements it underpins are continuous. Circumstances and business priorities can, and do, change, and therefore risks (both threats and opportunities) and their internal controls and mitigation actions will be regularly reviewed as part of the business planning and performance management process. The frequency of risk review will be proportionate to the risk rating (Corporate and Service High risks will be reviewed at least quarterly; Medium risks at least bi-annually; Low risks at least annually). That way, risks (threats and opportunities) are directly linked to the achievement of business objectives which can then be prioritised using that information.

The process to be adopted is described in the Risk Management Process Guide (published on the Intranet). The Guide outlines the systematic and structured process to identify, analyse, evaluate, control and monitor risks, and will include specific detail on levels of escalation, delegation and de-escalation of risks. The Guide is supplemented by other risk management toolkits. The latter will include the quantification of the Council’s risk appetite, tolerance and capacity to provide greater clarity and consistency. The Council continues to be engaged in major change management programmes involving capital investment, working with other partners on wider economy initiatives, and service delivery redesign including those related to digital.

This adds a further explicit area of risk exposure within the programmes and projects that underpin the achievement of their specific objectives.

- Programme – transforming corporate strategy into new ways of working that deliver measurable benefits to the organisation
- Project – delivering defined outputs to an appropriate level of quality within agreed time, cost and scope constraints.

The Risk Management Policy and Strategy will also be applied to programmes and projects. The Programmes and Projects have their own risk registers, which will continue to be developed and reviewed by relevant Programme and Project Managers and monitored by individual Programme and Project Boards. Material risks from these sources will be escalated to senior management as part of the regular reporting cycle so that any risks from potential interdependency failures can be properly assessed and appropriate action taken.

The Corporate Risk Officer will support Management in the development and review of the Corporate and Service risk registers, and provide advice and support for the application of risk management across Programmes and Projects. The Corporate Risk Officer will support Management of the Pension Fund and the entities delivering Services through strategic partnership arrangements, such as Integration Joint Board, Live Borders, and CGI, to fulfil the risk management responsibilities.

Training and Awareness

To enable effective management of risks and associated internal controls and governance the Council recognises that it must continue to support its people to develop the appropriate skills and competencies relevant to their roles. The provision of awareness and training programmes for employees on risk management will mainly be done through the use of E Learning modules, which will be targeted to appropriate members of staff, and during risk review discussions by the Corporate Risk Officer. Management will ensure that staff undertake appropriate training to enable them to understand and apply the risk management policy requirements and behaviours to fulfil roles within their own service areas.

The Council will communicate with employees and elected members to ensure awareness of effective Risk Management and good governance.

The Council will spread the word about good practice and this will be achieved by publishing relevant material within the Council using a variety of communication methods. The Council will incorporate the key message that internal control systems to minimise and mitigate risks are designed to deliver the benefits that are important to the Council's reputation and ability to deliver improved and value for money public services.

In the Council's dealings with outside individuals and organisations it will ensure that they are aware of the Council's approach to managing risk as part of sound governance.

Accountability

Accountability for performance must be an integral part of the Risk Management process and should cover two principal elements:

- a) Delivering the Strategy to realise the associated benefits
- b) Implementing actions that contribute to mitigation of Risk

The Directors sign off an annual assurance statement on internal controls and governance operating in their directorates / services which includes Risk Management. These, along with other sources of assurance are used to inform the Annual Governance Statement by the Chief Executive which is scrutinised by the Audit and Scrutiny Committee and then incorporated within the Annual Accounts.

A Standard Approach

A standardised approach will be implemented across the Council's operations to assist with the achievement and the demonstration of effective Risk Management:

- Governance through the Organisation Structure
- Adoption of a Single Standard – Management of Risk (M_o_R)
- Implementation of 'Risk Management Process Guide' enabling consistent application across the Council using best practice procedures
- Attendance at corporate Risk Management Training course by all Managers with responsibility for managing risks in the delivery of Business Plans, Programmes, Projects and Strategies
- Corporate membership of the Association of Local Authority Risk Managers (ALARM) and/or the Institute of Risk Management (IRM)

Monitoring and Review

The Chief Officer Audit & Risk will carry out an annual assessment of the efficacy of the Council's risk management arrangements against the Management of Risk (M_o_R) standard using a risk maturity model, and will monitor the implementation of any associated improvement actions.

Internal Audit will continue to review the efficacy of Risk Management arrangements and associated internal controls put in place by Management and provide independent assurance on the effectiveness of the Risk Management Strategy and activities as part of its assurance on the Council's Corporate Governance arrangements.

The Audit and Scrutiny Committee will oversee the adequacy and effectiveness of the Council's Risk Management systems and associated internal control environment through:

- Scrutiny of annual reports on the assessment of risks and the monitoring of the Risk Management strategy, actions and resources
- Consideration of periodic presentations by Directors to outline the strategic risks facing their services and internal controls and governance in place to manage or mitigate those risks

This strategy will be reviewed annually to ensure its continued relevance and effectiveness. This strategy will be subject to document control, version control, and be revised to reflect changes in legislation, risk management best practice, and significant changes in corporate governance.

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COUNTER FRAUD POLICY AND STRATEGY 2021-2024

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

22 November 2021

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to members of the Audit and Scrutiny Committee a revised Counter Fraud Policy statement and Counter Fraud Strategy for consideration and endorsement in advance of their presentation to Council for approval.**
- 1.2 The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and counter fraud controls, and to monitor counter fraud strategy, actions and resources.
- 1.4 A revised Counter Fraud Policy statement (Appendix 1) and 3-year Counter Fraud Strategy (Appendix 2) are included for consideration and endorsement by the Audit and Scrutiny Committee in advance of their presentation to Council for approval. This will enable the Council to continue to refine its approach to tackling fraud, taking account of reducing resources, with a focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee:**
 - a) Considers the revised Counter Fraud Policy Statement (Appendix 1) and Counter Fraud Strategy (Appendix 2) and endorses them for full Council approval;**
 - b) Acknowledges the role and responsibilities of the Audit and Scrutiny Committee as set out in the Counter Fraud Policy Statement; and**
 - c) Notes the reporting for assurance purposes on the efficacy of counter fraud arrangements as set out in the Counter Fraud Policy Statement.**

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 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 safeguarding of the Council's resources, for delivery of services, as part of protecting the public purse.
- 3.3 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.
- 3.4 The Integrity Group is a forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, corruption, theft and crime. It oversees the policy framework, performs self-assessments against best practice, agrees and monitors the implementation of improvement actions, and raises awareness as a method of prevention.
- 3.5 Internal Audit is required to give independent assurance on the efficacy 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 risks and to monitor counter fraud strategy, actions and resources.

4 COUNTER FRAUD POLICY STATEMENT

- 4.1 The Council's Counter Fraud Policy Statement at Appendix 1 outlines the key objectives and states the roles and responsibilities in tackling fraud; the primary responsibility for the prevention, detection and investigation of fraud rests with Management.
- 4.2 The Council's Counter Fraud Policy has been reviewed and refreshed to reflect the counter fraud developments that have been introduced during the last 3 years and the change in provision of resources.
- 4.3 The main changes in the Council's Counter Fraud Policy Statement can be summarised as follows:
 - Inclusion of reference to the main objective of tackling fraud which is safeguarding the Council's resources, for delivery of services, as part of protecting the public purse (Introduction section);
 - Inclusion of reference to taking account of reducing resources whilst having a continued focus on fraud prevention and detection (Introduction section);
 - Addition of reference to Integrity Group to reflect the key role it plays to support Management to fulfil their responsibilities in tackling fraud and

to improve the Council's resilience to fraud, corruption, theft and crime (Roles and Responsibilities section);

- Inclusion of an additional responsibility of Senior Management i.e. nominate counter fraud champions to support them to fulfil these responsibilities in tackling fraud, to reflect the change in provision of resources to deliver the counter fraud policy and strategy (Roles and Responsibilities section);
- Removal of reference to Corporate Fraud & Compliance Officer role to reflect the change in provision of resources to deliver the counter fraud policy and strategy (Roles and Responsibilities section);
- Specify the content of the annual report to ensure it reflects the wider aspects of the Council's counter fraud framework for assurance purposes i.e. addition of outcomes of counter fraud controls assessments, and an overview of counter fraud activity during the year; this is to align with the role and responsibilities of the Integrity Group (Reporting for Assurance Purposes section);
- Removal of the Budget section; instead reference to the provision of staff resources to implement the strategy is included within the Counter Fraud Strategy;
- Integration of two sections, Quality Assurance and Review, to avoid duplication and incorporate the sources of assurance and lessons learned in the review process (Monitoring and Review section);

5 COUNTER FRAUD STRATEGY

5.1 The Counter Fraud Strategy at Appendix 2 outlines the approach that will be adopted within Scottish Borders Council to tackle fraud, in support of the Counter Fraud Policy Statement.

5.2 The Council's Counter Fraud Strategy is based upon the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption' published in December 2014. The five elements of the code are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption

5.3 The Council's Counter Fraud Strategy has been reviewed and refreshed to reflect the counter fraud developments that have been introduced during the last 3 years and the change in provision of resources.

5.4 The main changes in the Council's Counter Fraud Strategy can be summarised as follows:

- Inclusion of a reference to the Council's new Appraisal Process and Competency Framework (Counter Fraud and Corruption Culture section)
- Addition of references to remit of the Integrity Group to reflect the key role it plays to support Management to fulfil their responsibilities in tackling fraud and to improve the Council's resilience to fraud, corruption, theft and crime (Plans and Policies, Deter and Detect, Response Action and Investigations sections)
- Inclusion of references to the change in approach for provision of resources to implement the strategy e.g. Management will nominate counter fraud champions, support from Audit & Risk (Deter and Detect, Training and Awareness sections).

- Integration of two sections, Action and Investigations, to avoid duplication in setting out the reactive aspects of tackling fraud and corruption when it is suspected or has occurred (Response Action and Investigations section);
- Addition of Management and Integrity Group second line responsibilities to check the efficacy of arrangements and implement appropriate improvements (Monitoring and Review section)

6 IMPLICATIONS

6.1 Financial

Effective internal control systems are designed to prevent and detect fraud and this contributes to safeguarding of the Council's resources, for delivery of services, as part of protecting the public purse. The Counter Fraud Strategy takes account of reducing resources, as the Audit & Risk service like all other Council services has to achieve the FF2024 financial savings assigned to the Services, therefore a different staff resource model is required. The developments that have been undertaken over the past 5 years (including work on the Business World ERP system), as evidenced through the self-assessments using the counter fraud maturity model, and duties reallocated to other areas reduces the requirement for a full time Corporate Fraud & Compliance Officer post in the future. The Business World ERP system and further planned investment in digital transformation presents the opportunity for Internal Audit to increase the use of data analytics, thus enabling counter fraud compliance and internal audit assurance to be combined into one continuous activity.

6.2 Risk and Mitigations

Management are responsible for identifying fraud risks, designing and maintaining effective controls proportionate to the risks. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group on behalf of the Corporate Management Team. Elected Member oversight is provided by the Audit and Scrutiny Committee.

The new staff resource model is designed to spread the duties over multiple roles thereby removing the risks associated with one individual being solely responsible. The roles and responsibilities and resource requirements to implement the strategy are set out in the Counter Fraud Strategy. Management will nominate counter fraud champions to support them to fulfil these responsibilities in tackling fraud. Partially dependent on directorate business support officers being a permanent model to incorporate the remaining duties into their current activity. Internal Audit will provide the resource to be the key contact for NFI, and carry out the combined counter fraud compliance and internal audit assurance. Management at a Service level will provide the resource for investigating NFI data matches and progressing outcomes.

6.3 Integrated Impact Assessment

- (a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required. This revised Counter Fraud Policy statement and 3-year Counter Fraud Strategy will enable the Council to continue to refine its approach to tackling fraud, taking account of reducing resources, with a focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud.

- (b) Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation.

6.4 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”.

6.5 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.

6.6 Rural Proofing

The revised Counter Fraud Policy and Strategy is unlikely to have a different impact in rural areas, based on completion of the checklist.

6.7 Data Protection Impact Statement

All counter fraud activity will be carried out in accordance with appropriate legislation; this includes the Data Protection Act 2018.

6.8 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.

7 CONSULTATION

- 7.1 The Integrity Group has been engaged in the review of the counter fraud policy and strategy and has been consulted on this report and appendices (policy and strategy) as part of fulfilling its role in enhancing the Council’s resilience to fraud.
- 7.2 The Corporate Management Team, which plays a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, has been consulted on this report and appendices (policy and strategy).
- 7.3 The 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)

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 10 May 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

COUNTER FRAUD POLICY STATEMENT

Introduction

The size and nature of the services provided by Scottish Borders Council (SBC), as with other large organisations, puts the Council at risk of loss due to fraud, theft, corruption or crime. The aim of this policy is to communicate why effective and robust counter fraud arrangements should be in place to ensure the Council's ongoing resilience to the threats of fraud and corruption. This policy will be supported by the Counter Fraud Strategy, which outlines the approach that will be adopted by SBC to tackle fraud, to ensure that neither SBC, nor its stakeholders, are exposed to an unknown, unmanaged or unacceptable degree of fraud risk by protecting themselves in an appropriate way.

Tackling fraud is an integral part of safeguarding the Council's resources, for delivery of services, as part of protecting the public purse. The harm caused by fraud, however, is not just financial. Fraud damages local people and communities, damages the Council's reputation and undermines trust in public services. Every pound lost through fraud cannot be spent on providing and delivering quality services that people rely on and which they pay their taxes to get, therefore it is important to have a strong counter fraud culture and effective counter fraud controls embedded within its business processes and governance arrangements.

The changing and increasingly complex environment in which the Council operates, and the complexity of policies, procedures, processes, systems, customer interfaces, legislative requirements, partnerships and joint working arrangements and relationships with other organisations that enable the Council to deliver its services, is happening against a backdrop of depressed economic activity in which the fraud risk tends to increase.

Management are committed to minimising fraud risk and at the same time taking appropriate actions against those who attempt to defraud the Council, whether from within the authority or from outside. Refinements to the Council's approach to tackling fraud, taking account of reducing resources, include a continued focus on fraud prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to the risk of fraud.

Roles and responsibilities

Corporate Management Team (CMT)

CMT will act as counter fraud leaders, tackling fraud from the top down, allocating sufficient resources proportionate to the level of fraud risk to ensure that income is maximised and assets are safeguarded, and fostering a strong counter fraud culture.

Integrity Group

The Integrity Group is a forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, corruption, theft and crime. It will: oversee the counter fraud policy framework; consider fraud risks and carry out counter fraud controls assessments; agree and monitor the implementation of improvement actions; and raise awareness as a method of fraud prevention.

Senior Management

Senior management will: identify fraud and corruption risks; ensure that they understand and apply the counter fraud policy requirements within their own service provision procedures and practices to ensure a comprehensive and coherent approach to fraud prevention, detection and investigation; take action to prevent, detect and investigate fraud; periodically highlight to staff the importance of behaving with integrity; support internal and external audits; carry out a periodic review of the efficacy of their counter fraud arrangements; and nominate counter fraud champions to support them to fulfil these responsibilities in tackling fraud.

Director – Finance & Corporate Governance

The Director – Finance & Corporate Governance is designated by Council as the officer responsible for the administration of the Council’s financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

Chief Officer Audit & Risk

The Chief Officer Audit & Risk will develop and maintain corporate counter fraud strategy, policy and procedures, in consultation with the Director – Finance & Corporate Governance, and ensure these are communicated effectively throughout the Council and that processes are in place to embed this in the Council’s culture and working practices.

Internal Audit

Internal Audit will review the effectiveness of controls put in place by Management to manage the risk of fraud. Full details of its roles are set out in the Internal Audit Charter.

Audit and Scrutiny Committee

The Audit and Scrutiny Committee will oversee the adequacy and effectiveness of the Council’s systems of internal financial control and framework of internal control to provide reasonable assurance of effective and efficient operations, including the review of assessment of fraud risks and controls, and the monitoring of the counter fraud strategy, actions and resources.

Elected Members

Elected Members need to be aware of and adhere to the procedures and practices in place to prevent fraud, theft, corruption or crime when performing their roles, and support the Public to utilise the whistleblowing process online to report any concerns.

Counter Fraud management process

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 safeguarding of the Council’s resources, for delivery of services, as part of protecting the public purse.

Reporting for Assurance Purposes

Reporting will include a Counter Fraud Annual Report for assurance purposes to CMT and the Audit and Scrutiny Committee on the outcomes of counter fraud controls assessments, an overview of counter fraud activity during the year, and progress with implementation of counter fraud improvement actions and outcomes. The Annual Governance Statement to CMT and the Audit and Scrutiny Committee will include a statement on the efficacy of counter fraud arrangements.

Monitoring and Review

Counter Fraud management policies, procedures, strategies and plans will be reviewed on an annual basis to ensure their continued relevance and effectiveness. Assurances and any recommended areas for improvement received from Internal Audit and External Audit and best practice and lessons learned shared across the public sector on counter fraud management will be considered as part of the review process. This policy will be subject to document control, version control, be reviewed at least annually, and be revised to reflect changes in legislation, counter fraud management best practice, and significant changes in corporate governance.

COUNTER FRAUD STRATEGY

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 and crime. Management are committed to minimising this risk and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. Refinements to the Council's approach to tackling fraud, taking account of reducing resources, include a focus on fraud prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to the risk of fraud.

The Council's Counter Fraud Strategy is based upon the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption' published in December 2014.

Counter fraud and corruption culture

The Council expects its employees and elected members to act within the law and the high ethical standards of integrity, honesty and openness, which are reflected in the Council's Code of Conduct internal codes, rules and procedures. The Appraisal Process and Competency Framework is based on shared values for the provision of public services and sets out examples of the positive standards of behaviours to fulfil roles. The Council also expects that all outside individuals and organisations, including service users, partners, suppliers, and contractors will act to the same standards.

Plans and policies

The Integrity Group will assist with developing, reviewing and updating the policies, procedures and guidelines across the Council to mitigate the risk of fraud, theft, corruption and crime, and ensure these are communicated effectively throughout the Council. As a minimum the policy framework for managing the risk of fraud will include: Counter Fraud Policy; Whistleblowing Policy; Anti Money Laundering Policy; Anti-Bribery & Corruption Policy; Gifts & Hospitality Policy and register; Conflict of Interest Policy and register; Codes of Conduct and Ethics; Information Security Policy; and Cyber Security Policy.

Management will ensure that Service specific plans, policies, procedures, processes and guidelines contain detailed information on how to prevent or reduce the Council's vulnerability to fraud, theft, corruption or crime as part of their service provision to ensure that income is maximised and assets are safeguarded.

Deter and detect

Management will continuously monitor and review the corporate governance and internal control systems, which include financial regulations, scheme of delegation, standing orders, data security, codes of conduct, procedures and guidelines, to ensure that fraud prevention and detection practices are effective and robust, and that reasonable and proportionate risk mitigating actions are in place.

In addition, Management at a Service level will continue to identify those areas, existing or new, which are vulnerable to fraud, theft, corruption or crime, will design controls to prevent or reduce the vulnerability, and will assess the effectiveness of the controls in place. Management will nominate counter fraud champions to support them to fulfil these responsibilities in tackling fraud.

A proactive approach to fraud detection will continue to be followed, including enhanced use of techniques such as data matching and intelligence sharing with partner organisations within the provisions of the General Data Protection Regulations. Positive publicity about the successful detection or prevention of a fraud is a vital deterrent to others contemplating defrauding the public purse.

The Council will continue to work with other organisations to manage its fraud risks and share best practice. This will include participation in counter fraud forums at local and national levels, such as the Scottish Local Authorities Investigators Group (SLAIG) and the NHS's Counter Fraud Service (CFS), and participation in the National Fraud Initiative (NFI), a data matching exercise for public bodies. Internal Audit will provide the resource to engage in these forums and to be the key contact for NFI. Management at a Service level will provide the resource for investigating NFI data matches and progressing outcomes.

The Integrity Group will consider emerging fraud risks, carry out counter fraud controls assessments, agree appropriate fraud mitigation actions thus identifying sustainable preventative measures, and raise awareness of risks and implications as a method of prevention.

Training and awareness

The Council will continue to support its people to develop the appropriate skills and competencies relevant to their roles in order to enable them to tackle fraud effectively. The provision of awareness and training programmes for employees on counter fraud prevention and detection will mainly be done through the use of E Learning modules which will be targeted to appropriate members of staff. Management will ensure that staff undertake appropriate training to enable them to understand and apply the counter fraud policy requirements and behaviours to fulfil roles within their own service areas. Management will nominate counter fraud champions to support them to fulfil these responsibilities in tackling fraud.

In its communications with employees and elected members, the Council will incorporate the key message that internal control systems to counter fraud, theft, corruption or crime are designed both to safeguard assets and to protect their integrity if challenged.

In the Council's dealings with outside individuals and organisations it will ensure that they are aware of the Council's stance towards tackling fraud, theft, corruption or crime. The Council will encourage the reporting of suspected fraud, theft, corruption or crime through confidential reporting or whistleblowing arrangements and reassure those who fear reprisals that it will protect their rights [Report potential corporate fraud - Scottish Borders Council \(scotborders.gov.uk\)](https://www.scotborders.gov.uk/report-potential-corporate-fraud).

Response Action and Investigations

Directors and Managers will report all actual or suspected cases of fraud, theft, corruption or crime to the Chief Officer Audit & Risk by email fraud@scotborders.gov.uk, and initiate an investigation, the aim of which is to take corrective action, minimise losses and help prevent further frauds.

Anyone suspected of fraudulent behaviour will be treated fairly and courteously within the principles of Article 6 and Article 8 of the Human Rights Act 1998. All investigations will be strictly confidential and intelligence or evidence will be gathered and held securely in accordance with the Data Protection Act 2018 and to a standard that would be admissible in court. Investigators will not carry out directed surveillance without proper authorisation as detailed in Regulation of Investigatory Powers (Scotland) Act 2000 and the Council's code of practice.

Where initial investigations identify evidence of criminality, the matter will be reported to Police Scotland and the Council will co-operate fully with any Police investigation.

Where investigations reveal evidence of fraudulent or dishonest behaviour, corrupt practice or theft by a member of staff, appropriate steps will be taken including disciplinary action in accordance with the HR policies.

Steps will also be taken to recover losses resulting from fraud, theft, corruption or crime including the recovery of assets and money, which may involve joint working with public sector partners.

Monitoring and Review

Managers will carry out a periodic review of the efficacy of their counter fraud arrangements, ensure that vulnerabilities within processes are addressed, and implement other counter fraud improvement actions identified during internal and external audit reviews or by the Integrity Group.

The Integrity Group will carry out an annual assessment of the efficacy of the Council's counter fraud arrangements using the Counter Fraud Maturity Model and will monitor the implementation of improvement actions to improve the Council's resilience to fraud, corruption, theft and crime.

Internal Audit will continue to review the efficacy of counter fraud internal controls put in place by Management and provide independent assurance over fraud risk management, strategy and activities. The developments that have occurred in respect of digital transformation, e.g. Business World ERP system, presents the opportunity for Internal Audit to increase the use of data analytics and implement continuous auditing to enhance the assurance to Management.

The Audit and Scrutiny Committee will oversee the adequacy and effectiveness of the Council's systems of internal financial control and framework of internal control through scrutiny of annual reports on the assessment of fraud risks and controls, and the monitoring of the counter fraud strategy, actions and resources.

This strategy will be reviewed annually to ensure its continued relevance and effectiveness. This strategy will be subject to document control, version control, and be revised to reflect changes in legislation, counter fraud management best practice, and significant changes in corporate governance.

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