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AUDIT COMMITTEE MONDAY, 13 FEBRUARY 2023

A MEETING of the AUDIT COMMITTEE will be held VIA MICROSOFT TEAMS on MONDAY, 13 FEBRUARY 2023 at 10.00 am

All attendees, including members of the public, should note that the public business in this meeting will be livestreamed and video recorded and that recording will be available thereafter for public view for 180 days.

J. J. WILKINSON,
Clerk to the Council,

3 February 2023

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute	5 mins
	(a) Minute - 23 November 2022 (Pages 3 - 8) Consider Minute of the Meeting held on 23 November 2022 for approval and signature by the Chair. (Copy attached.)	
	(b) Minute - 12 December 2022 (Pages 9 - 14) Consider Minute of the Meeting held on 12 December 2022 for approval and signature by the Chair. (Copy attached.)	
	(c) Audit Committee Action Tracker (Pages 15 - 16) Consider update on Audit Committee actions. (Copy attached.)	
5.	Director Risk Management Presentation Consider presentation on corporate risks by Chief Executive.	15 mins
6.	Draft Treasury Management and Investment Strategy 2023-24 Consider report by Acting Chief Financial Officer. (To follow.)	15 mins

7.	Counter Fraud Controls Assessment 2022-23 (Pages 17 - 24) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
8.	National Fraud Initiative 2022-2023 Exercise Self-Appraisal Checklist (Pages 25 - 36) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
9.	Internal Audit Work to December 2022 (Pages 37 - 50) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
10.	Any Other Items Previously Circulated	
11.	Any Other Items which the Chair 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 E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, P. Brown, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott, F. Sinclair, Mr S. Whalley and Mr P. Whitfield

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**SCOTTISH BORDERS COUNCIL
AUDIT COMMITTEE**

MINUTES of Meeting of the AUDIT
COMMITTEE held in via Microsoft Teams on
Wednesday, 23 November 2022 at 2.00 pm

- Present:- Councillors E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, P. Brown, M. Douglas, J. PatonDay, E. Robson, S. Scott, F. Sinclair, Mr S. Whalley and Mr P. Whitfield
- Apologies:- Councillors J. Cox
- In Attendance:- Acting Chief Executive, Acting Chief Financial Officer, Chief Officer Audit and Risk; Ms G. Woolman, Mr A. Haseeb, and Ms J. Law (Audit Scotland; and Democratic Services Officer (W. Mohieddeen).

CHAIR'S REMARKS

The Chair welcomed Members, officers and observers to the Meeting. The Chair extended a welcome to Mr Whalley and Mr Whitfield who had been selected as External Members of Audit Committee and were to have their appointments confirmed by a meeting of Scottish Borders Council on 24 November 2022.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 12 September 2022.

DECISION

AGREED to approve the Minute for signature by the Chair.

2. **ANNUAL TREASURY MANAGEMENT REPORT 2021-22**

- 2.1 There had been circulated copies of a report by Acting Chief Financial Officer that presented the annual treasury management activities undertaken during the 2021-22 financial year. The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) required an annual report on treasury management to be submitted to Council following the end of each financial year. The report highlighted the Council's treasury activity undertaken in the year ended 31 March 2022 and the performance of the Treasury function. Appendix 1 of the report is the annual report of treasury management activities for 2021-22 and contained an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. The performance comparisons reported were based on the revised indicators agreed as part of the mid-year report approved on 16 December 2021. The Appendix showed the Council's borrowing requirement to fund the capital investment undertaken during 2021-22, how much the council actually borrowed against the sums budgeted and the level of external debt within approved limits. During the year, the Council had, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. However, in March 2022, the Council did proactively undertake long-term borrowing of £20 million toward the financing of the capital program before interest rates were increased by the Bank of England, saving £3.94m over the life of the loan on a comparable basis to 2 November 2022 rates. Treasury management activity for the year had been undertaken in compliance with approved policy and the Code. The Council remained under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2022.

- 2.2 The Acting Chief Financial Officer presented the report and answered Members' questions. The Acting Chief Executive explained that overnight rates were a means to manage Council's cash in a proactive way to maintain an appropriate overdraft facility and put surplus cash to a positive third party. The approach to the investment strategy was to address the security of SBC money, assure liquidity and then, as a tertiary priority, obtain yield on investments. With regards to borrowing undertaken on 10-year fixed-rate terms, it was explained that the rates on which money was borrowed at would be fixed for the duration of the 10-year term and that treasury management advisers, Link Asset Services, would be consulted on re-borrowing. The Chief Officer Audit and Risk advised that Link Asset Services recently held a training seminar on Capital Strategy and Treasury Management to support the learning and development of new Members to the Audit Committee and was also a useful refresher for continuing Members; the seminar was an open invite to all Members. Link Asset Services expressed willingness to share the training slides on request for Members of the Committee and the wider Council that weren't able to attend. Members raised a number of typing errors in the Report that would be addressed before being presented to Council.

DECISION

AGREED:

- (a) **That treasury management activity in the year to 31 March 2022 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in this Report and in Appendix 1 of the Report; and,**
- (b) **To address typing errors in the Report before presented to Scottish Borders Council.**

3. EXTERNAL AUDIT ANNUAL REPORTS 2021-22 - SCOTTISH BORDERS COUNCIL PENSION FUND 2021 ANNUAL AUDIT REPORT

- 3.1 There had been circulated copies of the Audit Scotland Scottish Borders Council Pension Fund 2021-22 Annual Audit Report. Ms Woolman introduced Mr Asif Haseeb to present the report. Mr Haseeb explained that report had been presented to the Pension Fund Joint Board/Committee and was before the Audit Committee for information. Mr Haseeb emphasised that the Council was the administrative authority for the fund and stewarded a fund of over £900 million. There were no significant audit findings; however there were four recommendations made which were detailed in Appendix 1 of the report and which were accepted by officers with an agreed action plan. Appendix 1 of the report also set out the progress on recommendations for the previous year. Mr Haseeb summarised the key messages of the report which were that:

- The audit opinions on the annual report and accounts are unmodified;
- The financial statements of Scottish Borders Council Pension Fund gave a true and fair view of the state of affairs of the Fund as at 31 March 2022 and have been properly prepared in accordance with the financial reporting framework;
- the Fund paid out more than it collected annually from fund members, with investment returns making up the difference;
- the value of the Fund increased by 5.9% to £911 million during 2021-22, but investment performance was below the benchmark return set for the year;
- the Fund has appropriate and effective financial management arrangements in place which included comprehensive reporting of investment performance;
- recent triennial valuations provided assurance over the financial sustainability of the fund and the viability of its funding strategy;
- the Fund reviewed its investment strategy following the March 2020 triennial valuation and would continue to diversify the investment structure to support income generation,
- governance arrangements had been appropriate and operated effectively;
- there was effective scrutiny, challenge and informed decision-making by committee;
- the Fund actively considered Environmental, Social and Governance matters as part of its Investment Strategy;

- the Fund had an appropriate best value framework in place which included effective arrangements for monitoring investment performance and scrutinising management expenses;
 - Scottish Borders Council Pension Fund was awarded Local Government Pension Scheme (LGPS) Fund of the Year (assets under £2.5bn) at the LAPF Investments Awards; and,
 - 2021-22 was a challenging year for Scottish Local Government Pension Schemes. Ten of the eleven funds in Scotland still reported positive movements in net assets during the year, but only three of those funds, not including Scottish Borders, reported above benchmark returns.
- 3.2 In response to questions from Members, Mr Haseeb confirmed Audit Scotland was satisfied the incidence of an error in calculation of pension benefits was an isolated one and that retesting was not necessary. Discussions had taken place with management and Audit Scotland was satisfied with the response received. Mr Robertson advised that advice was sought on the incident, including from the Strathclyde Pension Fund, and that an isolated error was made which management understood why it happened and steps were taken to learn lessons so the mistake would not happen again. Mr Haseeb further advised that Audit Scotland that testing on transfers did not raise significant concerns and that future auditors may wish to look into this area.

DECISION

NOTED Scottish Borders Council Pension Fund Annual Report 2021-22 from the Council's External Auditor.

4. EXTERNAL AUDIT ANNUAL REPORT 2021-22 - AUDIT SCOTLAND SCOTTISH BORDERS COUNCIL ANNUAL REPORT

- 4.1 There had been circulated copies of the Audit Scotland Scottish Borders Council annual report and associated covering letters. The report explained that the external auditors' work on the 2021-22 annual accounts was substantially complete and subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual accounts for final review, Audit Scotland anticipated being able to issue a modified but unqualified audit opinion in the independent auditor's report on 24 November 2022. Members discussed the timing of the paper's submission to the committee. Ms Woolman apologised for the late submission of the paper to the meeting, however the report had not been scheduled to be submitted for September 2022. Prior to the Covid-19 pandemic, the audited annual accounts were usually concluded by 20 September each year. An agreement had been reached with the Scottish Government that the revised deadline for audited annual accounts would be 30 November and Audit Scotland were delighted that the paper was submitted in time for a meeting of Scottish Borders Council on 24 November for approval of the accounts. The date of the meeting was changed in light of difficulties that encountered during the audit. Ms Woolman recognised that finance team and audit team had worked very well together in partnership in preparation of the unaudited and audited accounts.
- 4.2 Ms Woolman highlighted in paragraph 5 of the report that there were no unadjusted misstatements yet to be corrected. Furthermore, in presenting the report to the Audit Committee, confirmation was sought from those charged with governance of any instances of any actual, suspected or alleged fraud, any subsequent events that have occurred since the date of the financial statements, or material non-compliance with laws and regulations affecting the entity that should be brought to the attention of the external auditors. Normally Audit Scotland are kept informed of those matters during their liaison with officers. A letter of representation from the Acting Chief Financial Officer was further sought, which was regarded as standard at the conclusion of an audit. Ms Woolman confirmed that the external auditors gave an unqualified audit opinion on the annual accounts. Furthermore, in the opinion of the external auditor, the financial statements gave a true and fair view in accordance with applicable law and the 2021-22 Code of the state of affairs of the Council and its group as at 31 March 2022 and of the income and

expenditure of the Council and its group for the year then ended. Ms Woolman presented a summary of the annual audit report for members. Audit Scotland were positive that management sought additional expertise regarding the valuation of land and buildings which resulted in a significant upward revaluation of assets. Related to common good fund assets, Council officers had been diligent in recognising that assets constructed on common good land be identified as belonging to the common good, and where assets were used constantly by the Council, it was more appropriate for them to be recognised as finance leases in the Council's balance sheets. These adjustments were made to Audit Scotland's satisfaction. With regards to transaction of Covid-19 grants, these were incorrectly included within the 2021-22 comprehensive income and expenditure statement as Scottish Borders Council was acting as agent on behalf of the Scottish Government. This was an administrative error and appropriate adjustments had been made to ensure that the income and expenditure were not materially mis-stated.

- 4.3 A number of questions were raised on the annual accounts. Close attention was paid to what was reported in Management Commentary and supporting evidence. The audit opinion covered the Management Commentary and that a correct balance was made in terms of backward and forward view. Audit Scotland tested that the Management Commentary was able to act as a standalone document. Testing was not made on detailed function as this would ordinarily be the role of Internal Audit; however Audit Scotland would assess whether appropriate internal arrangements were made to look into it. Mr Whalley asked for Council to be aware that Audit Committee did not receive enough time to review the report in detail, however the verbal report from the external auditors was reassuring. With regards to International Accounting Standard (IAS) 19 employee benefits and the impact on SBc Contracts, Ms Woolman explained that in the balance sheet of Scottish Borders Council, there was an IAS 19 liability related to the difference between assets and liabilities of pension fund as pertained to employees of Council. SBc Contracts own IAS 19 liability was contained within the Council overall liability. The Acting Chief Financial Officer explained that SBc Contracts delivered an operating surplus however there was a requirement to make technical statutory adjustments related to IAS 19. The pension adjustment valued all future pension liabilities if pension payments were made at present. The Acting Chief Executive advised that SBc Contracts had previously been classified as a direct labour organisation (DLO), and when the relevant legislation lapsed SBc Contracts was then reclassified as a significant trading organisation. This meant that it needed to be accounted related to IAS 19. SBc Contracts was performing more work internally and whether being a significant trading organisation was still relevant.

MEMBER

During discussion of the item, Councillor Douglas left the meeting.

- 4.4 The Acting Chief Financial Officer explained that external turnover of SBc Contracts increased from £2.1 million to £5.1 million from 2020-21 to 2021-22 which was likely due to restrictions in ability for SBc Contracts to do external work during 2020-21. The Acting Chief Financial Officer confirmed that the Chief Legal Officer would be the responsible officer for Follow-up of Prior Year Recommendations Action 2 Assets on Common Good Land. The Chief Officer Audit and Risk recommended that, with regards to Follow-up of Prior Year Recommendations Action 7 Best Value Action Plan, the Chair recommended to Council that Audit Committee would continue to scrutinise progress toward full completion of actions.
- 4.5 Ms Woolman confirmed that it was the final meeting for the external audit team, and extended thanks to finance officers, internal auditors and wider officer teams that have assisted Audit Scotland with their audit. The chair thanked Ms Woolman and the external auditors for the work on the audit.

DECISION

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

5. AUDITED ACCOUNTS 2021-22

- 5.1 With reference to paragraph 10 of the Minute of the Meeting held on 27 June 2022, there had been circulated copies of a report by Acting Chief Financial Officer that presented Members with copies of the Council's audited Annual Accounts for 2021-22. The audit appointment of Audit Scotland for Scottish Borders Council (SBC) accounts included the requirement to provide an auditor's report for the Council as well as related charities. KPMG had continued to provide the external audit of the Council subsidiary Bridge Homes. 2021-22 represented the sixth year of Audit Scotland undertaking of the External Audit of the Council's Annual Accounts with the process completed. As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Pension Fund, SBC Common Good Funds, the SBC Charitable Trusts, Bridge Homes LLP and Lowood Tweedbank Ltd were being presented to the Audit Committee prior to signature. KPMG had concluded their audit of Bridge Homes LLP and had raised no issues or matters to report.
- 5.2 Mr Haseeb highlighted minor changes since the report had been circulated with the agenda which officers had corrected related to typing errors in the contents page, name of the committee and in notes to the accounts. The Chair highlighted that a playpark that was noted as having opened in St Boswells had in fact been opened in Newtown St Boswells. The Acting Chief Financial Officer advised that the changes would be made before the accounts were signed. The Acting Chief Financial Officer summarised the report and responded to questions from members. Ms Woolman advised that Councils did not have guidance for what level of percentage should aim for in Reserves to cover risk. The Acting Chief Executive advised that most local authorities aimed for 2-4% of net expenditure as an allocated contingency balance and that Scottish Borders Council sat at just over 2%. Mr Whitfield highlighted a typing error on page 70 of the report with regards to the comparative years which the Acting Chief Financial Officer confirmed would be corrected prior to signing of the accounts.

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 2022;**
- (ii) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2022;**
- (iii) the Scottish Borders Council Common Good Funds (Charity SC031538) audited Annual Accounts for the year to 31 March 2022;**
- (iv) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2022;**
- (v) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2022;**
- (vi) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2022;**
- (vii) the SBC Ormiston Trust for Institute (Charity SC019162) audited Annual Accounts for the year to 31 March 2022;**

- (viii) the Scottish Borders Council Charitable Trusts (Charity SC043896) audited Annual Accounts for the year to 31 March 2022;**
 - (ix) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2022; and,**
 - (x) Lowood Tweedbank Ltd Annual Accounts for the year to 31 March 2022,**
- (b) AGREED to address typing errors in the Report before presented to Scottish Borders Council.**

CHAIR'S REMARKS

The Chair thanked Ms Woolman, Mr Haseeb, Ms Law and previous members of the external audit team; that the Committee would look forward to working with the new external audit team, welcomed Mr Whalley and Mr Whitfield as new external members of the committee; and all officers including the Acting Chief Executive, Acting Chief Financial Officer, and the finance team.

The meeting concluded at 3.40 pm.

**SCOTTISH BORDERS COUNCIL
AUDIT COMMITTEE**

MINUTES of Meeting of the AUDIT
COMMITTEE held in via Microsoft Teams on
Monday, 12 December 2022 at 10.00 am

- Present:- Councillors E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, P. Brown, J. Cox, M. Douglas, J. PatonDay, S. Scott, F. Sinclair, Mr S. Whalley and Mr P. Whitfield
- Apologies:- Councillors E. Robson
- In Attendance:- Acting Chief Executive, Director Education and Lifelong Learning, Acting Chief Financial Officer, Chief Officer Audit and Risk, Principal Internal Auditor, Corporate Risk Officer, and Democratic Services Officer (W. Mohieddeen).

CHAIR'S REMARKS

The chair welcomed members and attendees to the meeting and welcomed to the meeting Mr Paul Whitfield and Mr Steven Whalley as external members of the Committee, the Chief Officer Audit and Risk, Corporate Risk Officer, Director Education and Lifelong Learning, and Acting Chief Financial Officer. Invitations to the meeting were extended to the new external audit team however they were unable to attend.

1. AUDIT ACTION SHEET

- 1.1 There had been circulated copies of the Audit Action Sheet which was presented by the Chief Officer Audit and Risk. With reference to paragraph 7 of the Minute of the Meeting of Audit and Scrutiny Committee held on 22 November 2021, the software implementation action for the Business Continuity Framework was now complete; however this was the start of the process of the updating Business Continuity planning arrangements. Contact had been made with lead owners of associated Internal Audit actions in Emergency Planning to extend due dates to make them achievable.
- 1.2 With reference to paragraph 13 of the Minute of the Meeting of Audit and Scrutiny Committee held on 27 June 2022, the Chief Officer Audit and Risk advised that briefing seminars had been delivered or were scheduled. Briefings had taken place for: Risk Management Framework (7 September 2022); Treasury Management (9 November 2022); Internal Audit and Fraud Fundamentals (1 December 2022). Briefings were in the diary for Audit Committee Skills and Knowledge (2 February 2023); and annual Audit Committee self-assessment (1 March 2023).
- 1.3 With reference to paragraph 3 of the Minute of the Meeting held on 12 September 2022, a further update on progress on remaining audit actions for the Learning and Disability Service was scheduled for the March meeting of Audit Committee.
- 1.4 With reference to paragraph 6 of the Minute of the Meeting held on 12 September 2022, the Chief Officer Audit and Risk advised that a number of actions were underway by the Integrity Group. Internal Audit were proposing to bring reports forward on Counter Fraud Controls Assessment and an update on progress on National Fraud Initiative to the February 2023 meeting of Audit Committee.

DECISION

NOTED the update.

2. **DIRECTOR RISK MANAGEMENT PRESENTATION**

- 2.1 The Chair introduced the Director Education and Lifelong Learning to give a presentation on risk management in Education and Lifelong Learning. The presentation slide pack had been sent to members of the Committee on 9 December 2022. Ms Munro presented an organisational chart that outlined where service risks had been identified across and led by officers within Education and Lifelong Learning. The corporate risk that Ms Munro manages for the Senior Leadership Team was highlighted in which if children or young people were placed or educated outwith the local area their needs may not be sufficiently met and such placements result in significant cost to the local authority. This remained under active review rather than covered periodically, and Ms Munro worked with the Chief Officer Children and Young People's Social Work and the Corporate Risk Officer took a detailed approach into factors affecting this risk. The context reported showed an increased number of young people showing distressed behaviours which was identified as being an impact of the Covid-19 pandemic, including in children of a younger age profile than had previously been observed. There was also a reduction seen in available and suitable foster care spaces, respite and placements externally in these areas. This reflected the national picture. There were internal controls that were regarded as partially effective as they tended to be procedural or of a governance nature rather than addressing the number of care spaces. The next steps in management of the risks were to undertake an urgent review alongside the Director Social Work and Practice and the Director Health and Social Care to identify mitigating actions and to look at revenue and capital implications of any recommendations made. Other corporate risks managed by the Director Education and Lifelong Learning were de-escalated following a structured exercise to map strategic risks from the Corporate Risk Register. These related to Strategic Risk 18 Mental and Emotional Wellbeing of Children and Young People and Strategic Risk 20 Education System. Work to finalise the Risk Appetite, Capacity and Tolerance Toolkit had been finalised and was being introduced to Risk Owners and Managers. The Toolkit would help to meet the recommendation set out in the Risk Management Internal Audit Report 2021.
- 2.2 There were 30 Service Risks which Ms Munro presented to the committee. Some risks were of limited lifespan which included Covid-19 related measures which may be removed in the near future. Ms Munro suggested that some risks may be amalgamated such as those related to staffing. Concern of the impact of short-term school closures has been reduced following the Covid-19 pandemic lockdown. High impact risks in Community Learning and Development (CLD) were identified related to third sector funding and access to CLD services. In line with the revised risk management policy, these would be reviewed by Directors to see if any further mitigation could be taken. However, Ms Munro advised that this was a small service that would impact a lower number of users. Risks to young people's mental wellbeing and violence were highlighted. With regards to violence, the nurture approach was being used to mitigate distressed behaviours leading to violence. An improvement collaborative activity was undertaken within the service to focus on distressed behaviours as an increase of distressed behaviours was being seen nationally. On mental health and wellbeing, the Covid-19 pandemic has had an impact on young people. Participation on the national survey of health and wellbeing has given the service strong data on areas to work on for young people and to assist with resource allocation and support planning. A mobile application had been developed for young people to access a directory of support to address young people's mental health.
- 2.3 The Director Education and Lifelong Learning responded to questions from members. Mr Whitfield raised a number of procedural comments related to dates and actions associated with risks, access to the risk register and on risk related to impact on children and young people. The Director Education and Lifelong Learning acknowledged the points raised and the Chief Officer Audit and Risk summarised procedural matters related to risk appetite. Risk appetite tolerance and capacity toolkit would be used with risk owners for a considerable period of time which would give an opportunity to assess categorisation of what risk approach should be taken based on risk rating. Tolerate element would be evaluated as the risk appetite toolkit was applied. With regards to

specific actions on red and high impact risks contained within the report, the report and presentation was intended to cover high-level information; however risk management practices and actions were in place to address risks. The Acting Chief Executive advised that the information in the presentation was a summary of risk within the service area and that members were welcome to have an oversight session arranged to assess risk register and see risk management arrangements behind the snapshot contained in the presentation. The Chief Officer Audit and Risk advised that a risk management overview seminar was delivered in September 2022 attended by the Audit Committee members and other elected members and that information presented could be shared with all members.

DECISION

NOTED the update.

MEMBER

During discussion of the above item, Councillor Anderson left the meeting due to technical difficulties.

3. RISK APPETITE TOOLKIT FOR MANAGERS

3.1 There had been circulated copies of a report by Chief Officer Audit and Risk that provided Members with the Risk Appetite Toolkit for Managers that had been developed. Effective Risk Management was one of the foundations of effective Corporate Governance as recognised in the Council's Local Code of Corporate Governance. Compliance with the principles of sound Corporate Governance required the Council to adopt a coherent approach to the management of risks that it faced every day. Better and more assured risk management would bring many benefits to the Council and the people it serves. Management had the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks to the achievement of the Council's objectives. Internal Audit was required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk. One of the Audit Committee's functions was to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy. In 2021, a revised Risk Management Policy statement and a 3-year Risk Management Strategy were endorsed by this Committee and approved by the Council to enable the Council to refine its approach to managing risks and embed these key aspects into the management practices of the Council. A Risk Appetite Toolkit for Managers had been developed and was contained in Appendix 1 of the report. The Toolkit provided additional guidance to Management by defining acceptable levels of risk in relation to different risk categories and built on guidance set out in the Risk Management Process Guide.

3.2 A number of questions were raised by Mr Whalley on the report. The Chief Officer Audit and Risk advised that she had met with Directors to raise awareness of the document which was placed on the SBC intranet. The document was early in its rollout. The risk management criteria stated that red risks were reviewed at a minimum every three months, amber risks every six months, and green risks annually. Education and Lifelong Learning were targeted for a rollout of the process. The rollout would be an iterative process while conversations would take place with managers so that they were comfortable handling risk appetite and tolerance.

DECISION

NOTED

- (a) the development of the Risk Appetite Toolkit for Managers as an enhancement in support of implementing the Council's Risk Management Policy and Strategy; and,**
- (b) that the Risk Appetite Toolkit is being applied by Management, following its approval by Senior Leadership Team on 19 October 2022.**

4. **MID-YEAR TREASURY MANAGEMENT REPORT 2022-23**

- 4.1 There had been circulated copies of a report by Acting Chief Financial Officer that presented the mid-year report of treasury management activities for 2022-23, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and sought comments from Audit Committee prior to consideration of the report by Council. The report was required as part of the Council's treasury management control regime. It provided a mid-year report on the Council's treasury activity during the six month period to 30 September 2022 and demonstrated that Treasury activity in the first six months of 2022-23 had been undertaken in full compliance with the approved Treasury Strategy and Policy for the year. Appendix 1 of the report contained 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 2021-22 out-turn and experience in 2022-23 to date for Council approval.
- 4.2 A number of points were raised by Mr Whalley. A typing error was highlighted in page 8 of the report. It was suggested that it would be worth noting to Council that the commentary reflected the UK government policy scenario at the time. It was explained that Link Asset Services provided treasury advice and technical information to report to committees. Councillor Scott highlighted an error in describing the increase in inflation from 9% to 9.9% in August 2022 which the Acting Chief Financial Officer advised would be addressed.

DECISION

- (a) **NOTED that treasury management activity in the six months to 30 September 2022 was carried out in compliance with the approved Treasury Management Strategy and Policy; and,**
- (b) **AGREED**
- (i) **to the presentation of the Treasury Management Mid-Year Report 2022/23, as contained in Appendix 1, to Council for approval of the revised indicators; and,**
- (ii) **to address typing errors in the Report before being presented to Council.**

5. **INTERNAL AUDIT WORK TO OCTOBER 2022**

- 5.1 There had been circulated copies of a report by Chief Officer Audit and Risk that provided members of the Audit 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. The work Internal Audit had carried out in the period from 1 August to 31 October 2022 associated with the delivery of the approved Internal Audit Annual Plan 2022-23 was detailed in this report. A total of 5 final Internal Audit reports had been issued. There were 6 recommendations made associated with 2 of the reports (3 Medium-rated; 3 Low-rated). An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1 to this report. The SBC Internal Audit function conformed 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.
- 5.2 The Chief Officer Audit and Risk summarised the report for members and confirmed that the move to Internal Audit consultancy in a 'critical friend' role was a decision made by Internal Audit to ensure more value was taken from the internal audit process. The recommendation for a 'low' rating on developing a policy on Councillor training to provide

clarity on requirements to facilitate training needs assessment, monitoring and evaluation was explained by the Chief Officer Audit and Risk as having been made to have something in writing. There had previously been implicit or unwritten rules regarding training needs assessment and that it was felt that Council should approve a formal policy on training of elected members. With regards to changes to Clients' SDS care plans being actioned timeously, the Chief Officer Audit and Risk explained that as part of the digital transformation strategy there would be an element of making it easier to fulfil obligations and that capacity challenges would be highlighted.

DECISION NOTED

- (a) the Executive Summaries of the final Internal Audit assurance reports issued in the period from 1 August to 31 October 2022 associated with the delivery of the approved Internal Audit Annual Plan 2022-23;**
- (b) the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter; and,**
- (c) the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

6. INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2022-23

There had been circulated copies of a report by Chief Officer Audit and Risk that informed the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2022, towards completing the approved Internal Audit Annual Plan 2022-23. It also summarised the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards. The Internal Audit Annual Plan 2022-23 that was approved by the Audit and Scrutiny Committee on 14 March 2022 set out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer Audit & Risk (the Council's Chief Audit Executive (CAE)), to provide the statutory annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions were also provided to the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations. The Appendix 1 of the report provided details of the half-yearly progress by Internal Audit with the delivery of its programme of work, which indicated good progress. Some revisions to the Internal Audit Annual Plan 2022-23 would require approval by the Committee. The programme of work for the six months from October 2022 to March 2023 with current resources indicated that the revised Internal Audit Annual Plan 2022-23 can be delivered in full. The report also summarised the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conformed.

DECISION

- (a) NOTED the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2022-23;**
- (b) AGREED:**
 - (i) that it is satisfied with the Performance of the Internal Audit service; and,**
 - (ii) approved the revisions to the Internal Audit Annual Plan 2022/23.**

7. FOLLOW-UP REVIEW OF IN PROGRESS AUDIT RECOMMENDATIONS

- 7.1 There had been circulated copies of a report by Chief Officer Audit and Risk that provided an update to Members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2021-22 and previous years. Internal Audit was an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examined, evaluated and reported on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. The Internal Audit activity added value to the organisation (and its stakeholders) when it considered strategies, objectives, and risks; strived to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provided relevant assurance. The Remit of the Audit Committee included the 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.
- 7.2 The Chief Officer Audit and Risk presented the report and answered members’ questions. With regards to long extensions to audit actions, particularly to Roads Asset Management, when the audit was taken, conversations took place with the Director and relevant managers with regards to resourcing and dependency. The Chief Officer Audit and Risk was comfortable with timescales related to development as they may only be audited once every five years. Assurance was given by the Chief Officer Audit and Risk that checks were made where Internal Audit Actions may be closed. Assurance was also given by the Chief Officer Audit and Risk that the Internal Audit team had enough resource to cover the demands of audit work, noting that additional work was undertaken for the Health for Social Care Integration Joint Board and for the Pension Fund.

DECISION

(a) NOTED:

- (i) the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;**
- (ii) that Internal Audit will continue to monitor the completion of outstanding recommendations and will provide update reports to this Committee; and,**

(b) AGREED that it is satisfied with progress made.

8. **WHY BEST VALUE MATTERS - CHAIR OF ACCOUNTS COMMISSION BLOG**
The Chief Officer Audit and Risk advised that a link had been sent to members of the Committee on 9 December 2022 to a blog post by the Chair of Accounts Commission on Best Value which provided helpful context to the national view on developments of best value.

DECISION

NOTED the update.

CHAIR'S REMARKS

The Chair stated that John Boyd, Audit Scotland, was unable to join the meeting but the Chair looked forward to welcoming the new external audit team to the Committee and watching the new relationship with the Council grow.

The meeting concluded at 11.55 am.

ACTION TRACKER

SCOTTISH BORDERS COUNCIL AUDIT COMMITTEE 2022/23

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
22 November 2021				
Internal Audit Work to October 2021 (Audit of Business Continuity Framework)	AGREED to request the Corporate Management Team to review business continuity arrangements across the Council and that an assurance report be presented to the Audit and Scrutiny Committee at its February 2022 meeting.	Chief Executive / Emergency Planning	David Robertson/Andy McLean	Business Continuity software Project complete. Progress on Internal Audit Actions discussed at December 2022 Audit Committee meeting.
27 June 2022				
Proposed Briefings/Seminars at Development Sessions 2022-23 for Audit and Scrutiny Committee	AGREED that development sessions would be rearranged so they were not scheduled in the 45 minutes immediately preceding formal business of the Audit and Scrutiny Committee and self-assessment questionnaires would be issued prior to the sessions.	Audit & Risk	Jill Stacey	Delivered since previous update: Audit Committee Skills and Knowledge (2 February 2023) Scheduled: annual Audit Committee self-assessment (1 March 2023)
12 September 2022				
Progress Update on LDS Financial Management Recommendation	AGREED to keep the LDS Financial Recommendation action on the Audit Business Action Tracker.	Health & Social Care IJB	Chris Myers / Simon Burt	Further update at 13 March 2023 Audit Committee meeting.
Audit Scotland National Fraud Reports 2022	AGREED to request that the Integrity Group reports back to the Audit Committee on its findings and proposed further actions arising from these tasks (<i>recommendations arising from the Audit Scotland Fraud and Irregularity 2021/22 and National Fraud Initiative reports</i>).	Integrity Group	Jill Stacey	Reports by Integrity Group on Counter Fraud Controls Assessment and National Fraud Initiative at 13 February 2023 Audit Committee meeting. <i>Complete</i>
23 November 2022				
External Audit Annual Report 2021-22 – Scottish Borders Council	With regards to Follow-up of Prior Year Recommendations Action 7 Best Value Action Plan, the Chair would recommend to Council that Audit Committee would continue to scrutinise progress toward full completion of actions.	People, Performance & Change	Jason McDonald/Maggie Cripps	Further update at 13 March 2023 Audit Committee meeting.

Agenda Item 4c

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COUNTER FRAUD CONTROLS ASSESSMENT 2022/23

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 February 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to make the Audit Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls.**
- 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. 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, safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group, whose purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. One way it can achieve that is self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place.
- 1.4 Part of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 1.5 Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the outcomes contained within this report.

2 RECOMMENDATIONS

2.1 I recommend that the Audit Committee:

- a) Acknowledges the findings from the Integrity Group's assessment of counter fraud controls 2022/23 in response to fraud risks; and**
- b) Endorses the ongoing Management actions to enhance the Council's resilience to fraud, as summarised in the Action Plans set out in Appendices 1 & 2.**

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 at its meeting on 16 December 2021 approved a revised Counter Fraud Policy and Strategy 2021-2024, which had been endorsed by the Audit Committee on 22 November 2021. 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. The revised 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.
- 3.2 Establishing a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption, or crime and the leadership part played by the Council Management Team (CMT) and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 3.3 Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council, safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 3.4 The Integrity Group is an officer forum, chaired by the Chief Officer Audit & Risk, which has 2 Director representatives from CMT and representatives from HR, Finance, Legal, IT, and Procurement to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice.
- 3.5 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.
- 3.6 Part of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud vulnerabilities and to monitor counter fraud strategy, actions and resources.
- 3.7 The Integrity Group carried out assessments in 2020/21 and 2021/22 of counter fraud controls associated with the covid-19-emerging-fraud-risks. The findings from which were reported to the Audit Committee on 8 March 2021 and 14 February 2022 respectively, along with the necessary actions to enhance the Council's resilience to fraud, theft, corruption, and crime.
- 3.8 The Audit Committee on 12 September 2022 considered the Audit Scotland report 'Fraud and Irregularity Update 2021/22' ([link](#)) (published 14 July 2022) that set out a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2021/22. The Audit Committee endorsed the tasks being undertaken by the Integrity Group associated with the Audit Scotland report and requested an assurance report thereon.

4 SELF-ASSESSMENT 2022/23 FINDINGS AND NECESSARY ACTIONS

- 4.1 One way to improve the Council's resilience to fraud, corruption, theft and crime is through engaging with national forums to share intelligence, lessons learned and best practice, carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions to continuously improve the arrangements in place.
- 4.2 The Chief Officer Audit & Risk disseminated the Audit Scotland report 'Fraud and Irregularity Update 2021/22' to the Integrity Group on 3 August 2022 to progress the Actions arising from this report.
- 4.3 One of the actions arising from the Audit Scotland report 'Fraud and Irregularity Update 2021/22' is for public bodies to consider whether the risks and weaknesses in controls identified in this report may exist in their organisation and taking appropriate corrective actions. Each of the case studies were assigned to the relevant officer to set out the fraud risk controls in place at Scottish Borders Council and to determine whether any Management Actions are required to enhance those controls.
- 4.4 The Integrity Group on 3 October 2022 reviewed the status of Actions (set out in Appendix 1) and considered the consolidated 'Case Studies Fraud Risk Controls Assessment' (set out in Appendix 2).
- 4.5 Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the outcomes contained within this report. The Integrity Group will continue to monitor progress with implementation of Actions, noting that some are continuous across all parts of the Council.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. An Integrated Impact Assessment (IIA) was completed as part of the revised Counter Fraud Policy and Strategy 2021-2024, approved by Council on 16 December 2021. This is a routine good governance report for assurance purposes.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist as part of the revised Counter Fraud Policy and Strategy 2021-2024. However, the application of practices associated with the Council's Counter Fraud

Policy and Strategy is fundamental to ensuring an effective response to fraud, theft, corruption, or crime. This will make a difference to the UN Sustainable Development Goal 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

5.5 Climate Change

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

5.6 Rural Proofing

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

5.7 Data Protection Impact Statement

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

5.8 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Integrity Group has carried out the counter fraud controls self-assessment 2022/23 and has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

6.2 The Council Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, are being consulted on this Report.

6.3 The Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received taken into account.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

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

Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit Committee 14 February 2022 and 12 September 2022

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Contact us at fraud@scotborders.gov.uk

The Recommendations arising from the Fraud and Irregularity 2021/22 report are set out in the following table, along with the status of the Action by the Integrity Group as at 30 November 2022:

<p>Public bodies should ensure effective counter-fraud arrangements are in place. These include:</p>	<p>Integrity Group Action – Status as at 30 November 2022</p>
<p>1) having effective governance and oversight arrangements for counter-fraud</p>	<p>The Council’s Counter Fraud Policy states the roles and responsibilities in tackling fraud, including Management, Integrity Group and Audit Committee.</p>
<p>2) understanding the current and emerging counter-fraud risks facing the body</p>	<p>The Integrity Group meets quarterly and considers national reports on emerging risks, and gains insights from members’ represented on national forums such as Scottish Local Authorities’ Investigators Group (SLAIG).</p>
<p>3) regularly reviewing their counter-fraud strategy and counter fraud plan</p>	<p>A revised Counter Fraud Policy and Strategy 2021-2024 were approved by Council in December 2021.</p> <p>The Counter Fraud Strategy 2021-2024 and planned activities were reviewed during the year by the Integrity Group during quarterly meetings.</p> <p>Counter Fraud planned activity and outcomes are reported annually to Audit Committee.</p>
<p>4) regularly assessing and reviewing internal controls and governance arrangements to ensure they remain effective</p>	<p>A Counter Fraud Controls Assessment is carried out at least annually, and outcomes and improvements reported to the Audit Committee.</p>
<p>5) considering whether the risks and weaknesses in controls identified in this report may exist in their organisation and taking appropriate corrective actions</p>	<p>Integrity Group reviewed the ‘Case Studies Fraud Risk Controls Assessment’ relating to Scottish Borders Council at its meeting on 3 October 2022, in response to the publication of the Fraud and Irregularity Report 2021/22.</p>
<p>6) reviewing the independent reviews and associated recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems</p>	<p>This work was undertaken with CGI as part of the Counter Fraud Controls Assessment 2021/22 to review the SEPA report and provide assurance that any identified gaps do not exist within the SBC infrastructure.</p> <p>Furthermore, in partnership with CGI a Cyber Security Maturity Assessment (CSMA) was undertaken. The results of the CSMA were presented to CMT on 25 May 2022. This assessment has delivered recommendations on how to enhance and increase the effectiveness of current controls and identify areas where resilience against persistent threats could be improved.</p>

Appendix 2

The Integrity Group considered the consolidated 'Case Studies Fraud Risk Controls Assessment' relating to Scottish Borders Council on 3 October 2022, as summarised in the following table:

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Integrity Group Action Owner
Case study one: Pension Fund	The Fund uses the DWP Tell us Once system, where information on pensioners is uploaded on a monthly basis to include new pensioners, with any match reported back to the Fund. In addition to this an annual Life Certificate exercise is carried out for those pensioners who reside out with the United Kingdom. There is also participation in the NFI exercise where details on pensioners are provided for matching.	Consider whether there is merit in carrying out an exercise to capture any potential unreported deaths as highlighted in the case study given the controls that are and have been in place for a number of years. The Fund will need to explore how such an exercise could be carried out, including the costs associated with this.	Director People, Performance & Change
Case study two: Procurement Cards	<p>SBC Purchase Cards are covered by a Policy & Procedure which states the responsibilities of all stakeholders in the purchase card (pCard) process.</p> <p>Training is undertaken by all pCard holders and a Declaration of Agreement (based on understanding of the policy) completed and recorded by the Purchasing Team.</p> <p>Transactional limits are centrally controlled by the Purchasing Team. To agree a change to transaction limits requires approval by the budget holder and CCS team. A record of all requested changes is recorded by the Purchasing Team. Only those in the purchasing service with appropriate RBS SDOL system access can amend card limits.</p> <p>Transactional limits are set up to enable low value/ low risk purchases – the current limits reflect this i.e. no one in the SBC estate would have access to the kind of limit (£7,300) misused in the case study.</p> <p>Transactional data is reviewed monthly as part of the pCard data reconciliation into Business World. Any transactions deemed as potentially inappropriate (i.e. that go against the policy do's and don'ts) are highlighted and an email query sent to the card holder. If a transaction continues to be identified as potentially inappropriate the purchase card is put on stop by the Purchasing Team and the details escalated to line management and/or the budget holder for investigation.</p> <p>pCard limit reviews take place on all cards twice a year and limits adjusted in line with actual use (with consultation with card holders). Any cards found to have not been used are queried and if appropriate accounts closed/ cards cancelled.</p>	<p>Regularly review and update where required the relevant control reconciliation internal guidance (used by the Purchasing Team) – this is ongoing – last update July 2022.</p> <p>Review and update where appropriate the associated Policy & Guidance for card holders – last update Sept 2021 with a planned review update before scheduled Sept 2023.</p> <p>Continue with twice annual card limit reviews.</p>	Financial Services Manager

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Integrity Group Action Owner
Case study three: Invalid Supplier	Processes to update supplier bank details include verifiable evidence direct from supplier necessary in advance of making any changes. Payments team staff are aware of increased risk and are extra vigilant.	The roll-out of the Supplier Relationship Management module in Business World system, that is well underway, will allow suppliers to access portal to update their bank and other details.	Financial Services Manager
Case study four: Ticket Income	n/a		
Case study five: Covid-19 Funding	<p>The approach taken in Business Grant and Cost of Living Payment work as much as possible and practical has undoubtedly prevented possible fraud and error.</p> <p>The approach taken was cross officer/Team working within CASS bringing together various areas and depth of experience and knowledge plus involving other resources from outside CASS e.g. Finance, which meant a better preventative position from the start.</p>	Ongoing to maintain that collaborative approach as new things arise since its seems to focus minds and have the best scope for reducing opportunities for fraud. The cheque and payment cards discussions are a current example of the joined up approach being applied in practice.	Director Resilient Communities
Case study six: Covid-19 Funding	As above	As above	Director Resilient Communities
Case study seven: IT and cybercrime	<p>User Awareness</p> <p>Continued periodic emails are distributed regularly reminding staff of their responsibilities and guidance on what to do if a Spam/Phishing email is received.</p> <p>A short life working group has been setup with elected members to increase awareness.</p> <p>IT Client Manager and SBC Enterprise Architect attends both Scottish Local Authority Information Security Group (SLAISG) and Scottish Government Public Sector Cyber Resilience Network quarterly meetings.</p> <p>Cyber Security Maturity</p> <p>In partnership with CGI a Cyber Security Maturity Assessment (CSMA) was undertaken. The approach to this was underpinned by a range of methodologies including: NCSC's cyber risk management guidance, NCSC Cyber Assessment Framework, ISO27001.</p> <p>The results of the CSMA were presented to the Council Management Team on 25 May 2022. This assessment has delivered recommendations on how to enhance and increase the effectiveness of current controls and identify areas where resilience against persistent threats could be improved.</p> <p>Guidance from NCSC Actions to take when cyber threat is heightened are being reviewed regularly.</p>	<p>Regular and evolving security awareness training for staff/users across all levels of the organisation, delivered in various methods to ensure engagement and ownership</p> <p>Council Management Team to review and agree plan of action for implementation of recommendations from the CSMA. Paper being presented to aid discussion and decision-making process.</p>	IT Client Manager

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NATIONAL FRAUD INITIATIVE (NFI) 2022-2023 EXERCISE SELF-APPRAISAL CHECKLIST

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 February 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to make the Audit Committee aware of the outcomes of the completion of the self-appraisal checklist by the Integrity Group, as part of the Council's participation in the National Fraud Initiative (NFI) 2022-2023 Exercise.**
- 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.
- 1.4 Part of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 1.5 Assurances about the planning and initial preparations for the Council's participation in the National Fraud Initiative (NFI) 2022-2023 Exercise can be taken from the Actions and Self-Appraisal contained within this report.

2 RECOMMENDATIONS

2.1 I recommend that the Audit Committee:

- a) Endorses the Progress Update by the Integrity Group on Management Actions in response to the Recommendations arising from the 'National Fraud Initiative in Scotland 2022', as summarised in the Action Plan set out in Appendix 1; and**
- b) Acknowledges the outcomes of the completion of the Self-Appraisal Checklist by the Integrity Group as part of the Council's participation in the National Fraud Initiative (NFI) 2022-2023 Exercise, as set out in Appendix 2.**

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. 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.
- 3.2 The Counter Fraud Strategy 2021-2024 states the Council's commitment to participate in the National Fraud Initiative (NFI). NFI is a UK wide counter fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error.
- 3.3 The Chief Officer Audit & Risk acts as the Council's Senior Responsible Officer for NFI and the Principal Internal Auditor in the interim acts as the Key Contact for NFI. Management at a Service level provide the resource for extracting data from source business applications/systems for submission, investigating NFI data matches and progressing outcomes.
- 3.4 The Integrity Group is an officer forum, chaired by the Chief Officer Audit & Risk, which meets each quarter during the year. It has 2 Director representatives from CMT and representatives from HR, Finance, Legal, IT, and Procurement to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice.
- 3.5 Part of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud vulnerabilities and to monitor counter fraud strategy, actions and resources.
- 3.6 The Audit Committee on 12 September 2022 considered the Audit Scotland report 'The National Fraud Initiative in Scotland 2022' ([link](#)) (published 18 August 2022). The National Fraud Initiative (NFI) is a counter-fraud exercise which aims to prevent and detect fraud. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. The NFI shares and matches data held by public bodies and helps confirm that services and payments are provided to the correct people. The Audit Committee endorsed the tasks being undertaken by the Integrity Group associated with the NFI report and requested an assurance report thereon.

4 NFI ACTIONS AND SELF-APPRAISAL CHECKLIST

- 4.1 The Chief Officer Audit & Risk disseminated the Audit Scotland report 'The National Fraud Initiative in Scotland 2022' to the Integrity Group on 3 August 2022 to progress the Recommendations arising from this report.
- 4.2 One of the actions arising from the Audit Scotland report 'The National Fraud Initiative in Scotland 2022' is for public bodies to carry out a self-appraisal to ensure that their organisation's planning, approach, and progress during the next NFI exercise is appropriate. The Council's NFI Self-Appraisal Checklist 2022/23 (relevant section on Planning) was completed on 14 September 2022 as part of planning for the NFI Exercise 2022-2023.

- 4.3 The Integrity Group on 3 October 2022 reviewed the status of Actions in response to the NFI report Recommendations (set out in Appendix 1) and considered the content of the NFI Self-Appraisal Checklist (set out in Appendix 2).
- 4.4 Part A of Appendix 2 is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI. Part B of Appendix 2 is for staff involved in planning and managing the NFI exercise. The Self-Appraisal Checklist Q10-18 'Effective follow-up of matches' and Q19-21 'Recording and Reporting' will be completed at the appropriate phases of the NFI Exercise, as the Council transitions to the data match investigation phase, and ultimately to the recording and reporting phase. The Integrity Group will review the responses and will continue to monitor progress on a quarterly basis.
- 4.5 Assurances about the initial planning, resourcing and data submissions associated with the Council's participation in the NFI 2022-2023 Exercise can be taken from the updates and self-appraisal outcomes contained within this report.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

The process of identifying fraud risks by Management is based on the principles of the Council's Counter Fraud Policy and Strategy. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group, including their oversight of the Council's participation in the NFI Exercise.

5.3 Integrated Impact Assessment

Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. An Integrated Impact Assessment (IIA) was completed as part of the revised Counter Fraud Policy and Strategy 2021-2024, approved by Council on 16 December 2021. This is a routine good governance report for assurance purposes.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist as part of the revised Counter Fraud Policy and Strategy 2021-2024. However, the application of practices associated with the Council's Counter Fraud Policy and Strategy is fundamental to ensuring an effective response to fraud, theft, corruption, or crime. This will make a difference to the UN Sustainable Development Goal 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

5.5 Climate Change

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

5.6 Rural Proofing

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

5.7 Data Protection Impact Statement

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

5.8 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Integrity Group has reviewed the NFI Self-Appraisal Checklist, has oversight of the resources and plans for the Council's participation in the NFI 2022-2023 Exercise, and has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

6.2 The Council Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, have been consulted on this Report and appended Action Plan and Self-Appraisal Checklist.

6.3 The Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and appendices, and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

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

Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit Committee 12 September 2022

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The Recommendations arising from the 'National Fraud Initiative in Scotland 2022' report are set out in the following table, along with the status of the Action by the Integrity Group as at 30 November 2022:

Recommendations	Integrity Group Action – Status @ November 2022
<p>1. Maximise the benefits All participating bodies in the NFI exercise should ensure that they maximise the benefits of their participation. This includes reviewing matches timeously and prioritising high-risk matches. NFI users should review the guidance within the NFI secure web application, to help ensure the most effective use of limited resources when reviewing and investigating NFI matches.</p>	<p>Plan for NFI 2022-2023 exercise, develop timetable for data submission, and consider resources for the reviewing matches timeously.</p> <p><u>Progress</u></p> <p>Planning for and participation in the 2022/23 NFI exercise commenced on 14 September 2022 with a timetable developed by Internal Audit and a meeting of relevant officers in Services. Management identified persons within the relevant Services for data submissions in November and December 2022 and investigation of data matches from January 2023 to improve participation in NFI.</p> <p>Data submissions due on 18 November 2022 were uploaded to NFI Portal on 15 November 2022.</p>
<p>2. Self-appraisal The NFI self-appraisal checklist should be reviewed by the audit committee, or equivalent, and staff leading the NFI process. This is to ensure that their organisation's planning, approach, and progress during the next NFI exercise is appropriate.</p>	<p>Complete the NFI Self-Appraisal Checklist to reflect planning for NFI 2022-2023 exercise, and present to Audit Committee.</p> <p><u>Progress</u></p> <p>NFI Self-Appraisal Checklist 2022/23 (relevant section on Planning) was completed on 14 September 2022 and was presented to Integrity Group on 3 October 2022. To be presented to Audit Committee on 13 February 2023.</p>
<p>3. Take improvement action Where local auditors have identified specific areas for improvement, participating bodies should act on these as soon as possible.</p>	<p>Respond to recommendations made by the external auditor to ensure continuous improvement.</p> <p><u>Progress</u></p> <p>Action Plan agreed by SBC Officers in Annual Audit Report 2021/22 that was presented to the Audit Committee on 23 November 2022 and Scottish Borders Council 24 November 2022, along with the SBC audited accounts 2021/22.</p>

National Fraud Initiative (NFI) Self-Appraisal checklist 2022-23

Audited body: Scottish Borders Council

Officer responsible for NFI: Jill Stacey (Senior Responsible Owner), Sue Holmes (Key Contact)

Date completed: 14/09/2022

Background

1. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies and on different financial systems, and that might suggest the existence of fraud or error.
2. It means that public bodies can take action if any fraud or error has taken place, and it allows external auditors to assess fraud prevention arrangements which [those bodies](#) have.
3. More information about the NFI is available on the Audit Scotland [counter-fraud hub](#).

Self-Appraisal Checklist

4. The Self-Appraisal Checklist includes a two-part checklist that Audit Scotland encourages all participating bodies to use to self-appraise their involvement in the NFI prior to and during the NFI exercises.
 - Part A is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI.
 - Part B is for staff involved in planning and managing the NFI exercise.

Part A: For those charge with Governance	Yes/no/partly	Comments	Is Action Required? Who by and When?
Leadership, commitment and communication			
1. Are we aware of emerging fraud risks and taken appropriate preventative and detective action?	Yes	<p>Outcomes of Integrity Group’s assessment 2021/22 and action plan presented to SBC Audit & Scrutiny Committee on 14 February 2022 Item No. 08 - Counter Fraud Controls Assessment 2021-22.pdf (moderngov.co.uk)</p> <p>Audit Scotland reports ‘Fraud and Irregularity Update 2021/22’ and ‘The National Fraud Initiative in Scotland 2022’ were presented to SBC Audit Committee on 12 September 2022 and Integrity Group for assessment and action Fraud and irregularity 2021/22 Audit Scotland (audit-scotland.gov.uk) (published 14 July 2022)</p> <p>The National Fraud Initiative in Scotland 2022 Audit Scotland (audit-scotland.gov.uk) (published 18 August 2022)</p>	
2. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	<p>A focus on prevention and detection and promotion of counter fraud culture across the Council, taking account of reducing resources, was associated with the revised Counter Fraud Policy and Strategy 2021-2024 that were endorsed by Audit & Scrutiny Committee on 22 November 2021 and approved by Council on 16 December 2021 Agenda for Audit and Scrutiny Committee on Monday, 22nd November, 2021, 10.15 am - Scottish Borders Council (moderngov.co.uk) item 10 Agenda for Scottish Borders Council on Thursday, 16th December, 2021, 10.00 am - Scottish Borders Council (moderngov.co.uk) item 8</p> <p>The Integrity Group is a forum which meets quarterly and 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. One way it achieves that is by assessing the Council’s arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place.</p>	

Part A: For those charge with Governance	Yes/no/partly	Comments	Is Action Required? Who by and When?
3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes	As above	
4. Have we considered using the point of application data matching service offered by the NFI team (AppCheck), to enhance assurances over internal controls and improve our approach to risk management?	No	Data matching and data analytics is routinely carried out by Internal Audit in the course of their planned work.	
5. Are NFI progress and outcomes reported regularly to senior management and elected/board members (e.g. the audit committee or equivalent)?	Yes	<p>Progress and outcomes of NFI are regularly fed back to the Council's Integrity Group (quarterly officer forum) and annually to the Audit Committee within the Counter Fraud Annual Report for assurance purposes.</p> <p>2020/21 – A&SC 10 May 2021 Item No. 9 - Counter Fraud Annual Report 2020-21.pdf (modern.gov.co.uk)</p> <p>2021/22 – A&SC 27 June 2022 Item No. 10 - Counter Fraud Annual Report 2021-22.pdf (modern.gov.co.uk)</p>	
6. Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	Yes	<p>During the pandemic the NFI 2020-2021 activity was reduced. However, all NFI data sets were submitted on time and in full. The resources and activity was regularly reported to the Response & Recovery Board as part of business continuity during the pandemic.</p> <p>Data match investigations by Services were significantly impacted due to staff deployment during the pandemic to response activity, including payment of other Scottish Government grants, and critical service delivery and statutory.</p> <p>Internal Audit carried out a contingency audit on request by Management on Business Support Grants in response to new and emerging Covid fraud risks and reported findings to Audit & Scrutiny Committee on 28 September 2020 Item 11 - Internal Audit Work to September 2020.pdf (modern.gov.co.uk)</p> <p>Internal Audit carried out a risk-based planned Assurance Audit of Scottish Government Support Grants and reported findings to Audit & Scrutiny Committee on 20 September 2021 Item No. 09 - Internal Audit Work to August 2021.pdf (modern.gov.co.uk)</p>	

Part A: For those charge with Governance	Yes/no/partly	Comments	Is Action Required? Who by and When?
7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes	The Internal Audit Charter approved by A&SC 14 March 2022 Internal Audit Charter (moderngov.co.uk) states the scope of Internal Audit activity includes the review of: “The effectiveness of arrangements for safeguarding the organisation’s assets and interests, including fraud prevention controls and detection processes (this involves liaising with the Counter Fraud Champions on an on-going basis to ensure fraud risk is considered in every audit; and this might involve assisting or liaising in fraud investigations where appropriate).”	
8. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes	As above	
9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)?	Yes	Progress and outcomes of counter fraud activity are regularly fed back to the Council’s Integrity Group (quarterly officer forum) and annually to the Audit Committee within the Counter Fraud Annual Report for assurance purposes. 2020/21 – A&SC 10 May 2021 Item No. 9 - Counter Fraud Annual Report 2020-21.pdf (moderngov.co.uk) 2021/22 – A&SC 27 June 2022 Item No. 10 - Counter Fraud Annual Report 2021-22.pdf (moderngov.co.uk)	

Part B: for the NFI key contacts and users	Yes/no/partly	Comments	Is Action Required? Who by and When?
Planning and Preparation			
<p>1. Are we aware of emerging fraud risks and taken appropriate preventative and detective action?</p>	Yes	<p>Outcomes of Integrity Group’s assessment 2021/22 and action plan presented to SBC Audit & Scrutiny Committee on 14 February 2022 Item No. 08 - Counter Fraud Controls Assessment 2021-22.pdf (modern.gov.co.uk)</p> <p>Audit Scotland reports ‘Fraud and Irregularity Update 2021/22’ and ‘The National Fraud Initiative in Scotland 2022’ were presented to SBC Audit Committee on 12 September 2022 and Integrity Group for assessment and action Fraud and irregularity 2021/22 Audit Scotland (audit-scotland.gov.uk) (published 14 July 2022)</p> <p>The National Fraud Initiative in Scotland 2022 Audit Scotland (audit-scotland.gov.uk) (published 18 August 2022)</p>	
<p>2. Are we investing sufficient resources in the NFI exercise?</p>	Yes	Resources are sufficient and are proportionate to the level of fraud risk and efficacy of other internal controls and mitigating actions.	
<p>3. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.</p>	Yes	<p>Planning for data submission meeting held on 14 September 2022, including the data specifications, timetable, quality of data, and nominated staff in relevant Services. Assistance is available from Cabinet Office, Audit Scotland, and Scottish Local Authorities’ Investigators Group (SLAIG).</p> <p>Integrity Group meeting 3 October 2022 to oversee the initial planning arrangements and resources.</p> <p>The intention for the NFI exercise 2022-2023 is to identify persons in relevant Services for investigation of data matches, to set up user ids for them and train them on the use of the NFI portal, and to gain some learning during the NFI 2022-2023 exercise from all those participating.</p>	
<p>4. Is our NFI Key Contact the appropriate officer for that role and do they oversee the exercise properly? Are our Key Contact’s details up to date on the NFI system?</p>	Yes	<p>The Key Contact for the 2022-2023 NFI exercise in the interim is the Principal Internal Auditor; details are up to date on the NFI system.</p> <p>In due course, a Senior Internal Auditor (currently vacant post) will act as NFI co-ordinator in collaboration with Services for data submissions and investigation outcomes.</p>	
<p>5. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?</p>	Yes	Refer to responses to 3 & 4 above.	

Part B: for the NFI key contacts and users	Yes/no/partly	Comments	Is Action Required? Who by and When?
6. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes	Discussed at Integrity Group meeting 3 October 2022 to oversee the initial planning arrangements and resources.	
7. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes	This is done during the planning stage. Liaison with direct Services and the Information Manager and Information Governance Group for guidance.	
8. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	This is done during the planning stage. Liaison with direct Services and the Information Manager and Information Governance Group for guidance.	
9. Have we considered using the point of application data matching service offered by the NFI team (AppCheck) to enhance assurances over internal controls and improve our approach to risk management?	No	This is a chargeable service. Data matching and data analytics is routinely carried out by Internal Audit in the course of their planned work.	
Effective follow-up of matches			
10. Do all departments involved in NFI start the follow-up of matches promptly after they become available?			
11. Do we give priority to following up high-risk matches, those that become quickly out-of-date and those that could cause reputational damage if a fraud is not stopped quickly?			
12. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?			
13. (In health bodies) Are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?	n/a		

Part B: for the NFI key contacts and users	Yes/no/partly	Comments	Is Action Required? Who by and When?
14. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?			
15. Do we avoid deploying excessive resources on match reports where early work (e.g. on high-risk matches) has not found any fraud or error?			
16. Where the number of high-risk matches is very low, are we adequately considering the medium and low-risk matches before we cease follow-up work?			
17. Do we follow up matches which indicate a customer may be eligible for a benefit or service which they currently do not receive?			
18. Overall, are we deploying appropriate resources on managing the NFI exercise?			
Recording and Reporting			
19. Are we recording outcomes properly in the secure website and keeping it up-to-date?			
20. Do staff use the online training modules and guidance on the secure website, and do they consult the NFI team if they are unsure about how to record outcomes?			
21. If, out of preference, we record some or all outcomes outside the secure website, have we made arrangements to inform NFI team about these outcomes?			

INTERNAL AUDIT WORK TO DECEMBER 2022

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 February 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**
- 1.2 The work Internal Audit has carried out in the period from 1 November to 31 December 2022 associated with the delivery of the approved Internal Audit Annual Plan 2022/23 is detailed in this report. A total of 5 final Internal Audit reports have been issued. There were 9 recommendations made associated with 4 of the reports (3 Medium-rated; 6 Low-rated).
- 1.3 An Executive Summary of the final Internal Audit assurance 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 Committee:**
 - a) Notes the Executive Summaries of the final Internal Audit assurance reports issued in the period from 1 November to 31 December 2022 associated with the delivery of the approved Internal Audit Annual Plan 2022/23;**
 - b) Notes the 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 2022/23 was approved by the Audit and Scrutiny Committee on 14 March 2022. 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 1 November to 31 December 2022 associated with the delivery of the Annual Plan 2022/23.
- 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.

Completed Internal Audit Assurance Reports

- 4.3 Internal Audit issued final assurance reports on the following subjects:
- Payroll
 - Schools Financial and Business Administration Processes
 - Housing Strategy
 - Fleet Management
 - Passenger Transport
- 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 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 2022/23 consists of the following:

Audit Area	Audit Stage
Partnering Arrangements	Governance overview underway
Corporate Transformation Programme – Fit for 2024 (Digital)	Testing nearly completed
Performance Management - Framework	Continuous audit
Business Planning, Financial Planning, Budgeting & Monitoring, including Workforce Planning	Testing nearly completed
Procurement to Payment	Testing underway
Benefits Assessments	Testing underway
Jedburgh Conservation Area Regeneration Scheme (CARS)	Concluding Audit work; guidance received from funder Historic Environment Scotland
Economic Development Funded Programmes - UK Community Renewal Fund	Testing underway
Mental Health Services (Adults and Children) (b/f from 2021/22)	Testing underway
Sustainable Environment	Continuous audit

Changes to Internal Audit Planned Assurance Work

4.7 The planned Asset Management assurance audit on 'Property Asset Management' has been removed from the Internal Audit Annual Plan 2022/23 and deferred to 2023/24 in agreement with the Director Infrastructure and Environment. The associated Commentary in the Plan is

"The Council has a structured asset management framework for buildings, other property and facilities to ensure they are fit for purpose, and accurate records to demonstrate efficient and effective use. Specific review of the controls over the consumption of utilities (energy and water consumption) ensuring usage is adequately controlled and represents value for money)".

This change to the timing of Internal Audit assurance work is to align with the determination of a resourcing model and the development of an implementation action plan associated with the Estates Strategy that is awaiting finalisation and approval by Council, and will not impair the Internal Audit assurance work required to inform the Chief Officer Audit & Risk's annual audit opinion.

Internal Audit Consultancy and Other Work

4.8 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 Programme Board, Sustainability Board).

- b) Initial discussions with the Director Strategic Commissioning and Partnerships and relevant Service Managers to define the Internal Audit consultancy review relating to Care Homes and Care at Home. This will be a significant consultancy review as a 'critical friend' in 4th Quarter 2022/23 to oversee process changes being designed and implemented and to augment risk management and quality assurance practices.
- c) Initial discussions with the Director People, Performance & Change and the Interim Chief Officer Corporate Governance to inform the review of the sufficiency of the Council's Whistleblowing Policy. This is activity in response to a formal request by the Acting Chief Executive to undertake Internal Audit work to review the policy and make any recommendations for improvement.
- d) Learning and development is undertaken by all Internal Audit team members during the research stage of audits, and through joining appropriate webinars and completing mandatory e-Learning courses.
- e) The Chief Officer Audit & Risk is the Chair of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) and a member of the CIIA Local Authority Forum whose virtual meetings provide the opportunity to share good practice and to keep knowledge of new Internal Audit developments up to date. The Chief Officer Audit & Risk and the Principal Internal Auditor joined virtual CIIA webinars on the topics of 'Effective Communication and Reports'; and 'Internal Audit and Risk as a similar function'.

Recommendations

4.9 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.

4.10 The table below summarises the number of Internal Audit recommendations made during 2022/23:

	2022/23 Number of Recs
High	0
Medium	3
Low	6
Sub-total reported this period	9
Previously reported	13
Total	22
Recommendations agreed with action plan	22
Not agreed; risk accepted	0
Total	22

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 2022/23 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 Council Management Team, Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (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 Committee 13 December 2022

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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Payroll</p> <p>No: 079/017</p> <p>Date issued: 06 January 2023 Draft; 16 January 2023 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the audit was to carry out compliance testing of controls at Service level, including assurance work on Payroll processes for Council, Pension, and Election payrolls, and key controls to prevent fraud and error.</p> <p>There has been a significant reduction in both the number and value of Payroll overpayments (£31k) since our previous audit in 2020/21 (£93k). The main reason for the overpayments is late notification from Line Managers of changes which would affect the salary payment. These instances account for £21k (67%) of the total overpayment (£31k).</p> <p>Pensions overpayments totalled 20 cases amounting to £3k. These can mainly be attributed to the timing issue of payments being prepared ahead of the payment date, and notification being received of a death and which would impact the payment. There is a successful process for recovery of these overpayments, which is managed sympathetically.</p> <p>The Council has a legal duty to ensure certain staff are enrolled into the workplace pension scheme. Procedures are in place to ensure that all relevant staff are automatically enrolled, and the re-enrolment and re-declaration takes place. The Council fully complies with the Pensions Act 2008.</p> <p>The election payment process is well documented and our testing confirmed accuracy in payments made.</p> <p>Internal Audit are able to provide comprehensive assurance. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas are being progressed by HRSS: drafting the formal Payroll Overpayment Policy to reflect existing processes; and further work with Line Managers to ensure timely notification of changes.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Schools Financial and Business Administration Processes</p> <p>No: 127/035</p> <p>Date issued: 14 December 2022 Draft; 06 January 2023 Final</p> <p>Level of Assurance: Substantial (Petty Cash, Inventories, ParentPay, Mandatory eLearning Training, Staffing, Purchase Cards, and Education Maintenance Allowances); and Limited (School Funds)</p>	<p>The purpose of the review was to ensure the internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The school estate has 69 establishments within the region. This is made up of 9 High schools and 60 Primary settings. The establishments have the responsibility for educating 14,414 young people (Primary pupils 7,827 and High school pupils 6,587. Data correct at 8 November 2022).</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Progress has been made with the School Fund template, enabling Internal Audit full scrutiny of files. • Mandatory training for Business Support staff has maintained its excellent levels of compliance, and an increase in completion is acknowledged for Teaching staff. <p>Internal Audit are able to provide: Substantial assurance for most Schools Financial and Business Administration Processes (including Petty Cash, Inventories, ParentPay, Mandatory eLearning Training, Staffing, Purchase Cards, and Education Maintenance Allowances), with evidence of progress being made with the implementation of previous recommendations and improvement in the internal financial controls; and Limited assurance for School Funds, where focussed improvement is required to ensure consistency in data recording to provide accuracy on the amount available to spend.</p> <p>Internal Audit have made the following recommendations:</p> <ul style="list-style-type: none"> • Controls and processes should be established to ensure the accuracy of the data and to make clear what is available to spend within the School Funds. (Medium) • Reimbursement of ParentPay charges should be made in a timely manner and within the same academic year. (Low) 	0	1	1	Management have confirmed the factual accuracy and accepted the findings of the audit report, and have agreed to implement the new recommendations in addition to continuing to implement those arising from the previous audit.

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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Housing Strategy</p> <p>No: 155/001</p> <p>Date issued: 16 December 2022 Draft; 17 January 2023 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to assess whether governance and controls are in place to ensure efficient and effective use of funding and other resources for the provision of affordable housing to ensure achievement of housing strategy with partners.</p> <p>The Housing (Scotland) Act 2001 places a statutory requirement on local authorities to produce a Local Housing Strategy (LHS), which sets out its strategy, priorities and plans for the delivery of housing and related services.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • The Scottish Government Peer Review praised the LHS as 'a comprehensive strategy that articulates well the large amount of work that has been put into developing such a document'. • The Strategic Housing Investment Plan (SHIP) annual report demonstrates that 313 affordable homes were delivered exceeding the annual target of 128 new affordable homes. <p>The 2017-22 strategy has been extended by a year and work is already underway to prepare the next one. The strategy is well monitored and annual progress reports are published on the Council's website. The supporting annual SHIP is appropriately approved, published and monitored.</p> <p>As the Council is a housing stock transfer authority, there is no funding from the Housing Revenue Account for affordable housing. Nevertheless there are adequate funding and investment frameworks in place to ensure that affordable housing is delivered.</p> <p>Internal Audit are able to provide Substantial assurance, and have made the following recommendation:</p> <ul style="list-style-type: none"> • The Housing Strategy Team should engage with the Corporate Risk Officer to establish which risks should be included in a risk register to comply with the Council's Risk Management Policy. (Low) 	0	0	1	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendation.</p> <p>The Lead Officer - Housing Strategy and Development has scheduled meetings with the Corporate Risk Officer to progress this activity as an area of improvement.</p>

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<p>Audit Plan Category: Asset Management</p> <p>Subject: Fleet Management</p> <p>No: 204/005</p> <p>Date issued: 13 January 2023 Draft; 30 January 2023 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to assess if adequate controls are in place to ensure fleet asset records are complete and accurate and fleet replacement decisions represent value for money.</p> <p>The Council maintains an asset register in which vehicles and larger items of plant are recorded, subject to the de-minimus capitalisation limit. Fleet Assets are also recorded in the Tranman system, which records items of plant below de-minus level.</p> <p>The replacement decision is based on a number of factors, the most important being the assessed end of life date at which point the asset's performance is reviewed in terms of utilisation, reliability, repairs history and continued suitability to the service. Fleet Management will advise the Service area on the best options but the decision rests with the Service area. Fleet Management service is increasingly looking to leasing as a better solution for replacement than outright purchase. The historical replacement deferral has impacted on the Council being able to demonstrate value for money, although there is no doubt that recent Fleet replacement decisions led by the new Fleet Manager are improving arrangements, bringing benefits to service delivery and resilience.</p> <p>The procurement process is a multidisciplinary activity and overall appears to work well, increasing the likelihood of compliance with the Council's Procurement policies and procedures. Direct awards are common for the heavier vehicles justified on the benefits of standardisation in terms of existing experience, familiarity, and quality. This approach may well lead to lower whole of life costs notwithstanding a higher initial acquisition cost.</p> <p>Maintenance and inspection is primarily managed via the Tranman system which is both out of date and expensive to operate and is not consistently accurate in its reporting resulting in excessive manual validation which is inefficient. The intention is to replace Tranman with an alternative system R2C, which is considered to suit better the needs of the Fleet Management service.</p>	0	2	0	<p>Management have agreed the factual accuracy of the report, and are in agreement with the findings and recommendations of this audit.</p> <p>The Fleet Manager is committed to progressing several actions with support from Senior Management, HR, Performance Officers and Others to implement the recommendations during 2023. This will enable further improvement of fleet management practices and ensure compliance with all relevant laws and regulations within a very challenging operating environment.</p>

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Subject: Fleet Management (cont'd)	<p>Sound budget monitoring is in place, with monthly reporting of the financial position. The Fleet Manager also has access to the Financial Information Centre (FIC). There is no up-to-date and comprehensive workforce or succession plans currently in place for the Fleet Management service although work is actively ongoing to develop these plans. There are no performance monitoring arrangements currently in place for Fleet Management. No Key Performance Indicators have been defined and therefore benchmarking is not possible. In part this is due to reporting limitations within the Tranman system.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place, with evidence of recently improved approaches. There is some scope for further improvement as current arrangements could undermine the achievement of objectives. The Management plans to replace the Tranman system during 2023/24 with the R2C system is designed to ensure complete, accurate and validated fleet asset records and more efficient monitoring. The two Medium-rated Internal Audit recommendations are designed to assist with improved people management and performance management practices.</p> <p>Internal Audit have made the following recommendations:</p> <ul style="list-style-type: none"> • The Fleet Management people and succession plans currently under development should be completed with haste as potential problems may exist in respect of single points of failure, suitable recruitment and retention, and an ageing workforce. (Medium) • Relevant Key Performance Indicators should be defined and introduced for Fleet Management. Once established, benchmarking should be undertaken with similar organisations where it is practical to do so. (Medium) 				

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<p>Audit Plan Category: Asset Management</p> <p>Subject: Passenger Transport</p> <p>No: 211/009</p> <p>Date issued: 21 December 2022 Draft; 30 January 2023 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to analyse and assess current processes for the Passenger Transport Unit (PTU) to identify the approach which represents best value, and review the internal and client provider practices and consider options for improvement.</p> <p>A transport policy is in place and there is comprehensive guidance for parents and carers. Established procedure can be discerned from the policy and guidance. It is a requirement that internal transport should be booked via the PTU.</p> <p>The Procurement Service has a good grasp on the procurement of both emergency and regular ongoing transport. There have been limited number of occasions of attempts to organise transport bypassing the PTU, which the Procurement Team have prevented. Internal Audit considers existing arrangements to be essential due to the vetting processes undertaken and that the processes in place are workable and not unnecessarily restrictive.</p> <p>The Principal Transport Officer and both Team Leaders receive a budget monitoring report on a monthly basis. In conjunction with Finance Officers a full year forecast is updated as part of the monthly reporting process. Client departments receive monthly budget monitoring information regarding transport in the form of overall costs of transport/escorts, etc. as well as breakdown per client. A full year forecast is also provided.</p> <p>The PTU Risk Register primarily focuses on risks facing passenger transport from the perspective of the travelling general public. There is little reference to risks specifically related to transport of clients, particularly for those with identified additional needs.</p> <p>With the exception of mainstream Home to School transport, the client department will undertake a transport risk assessment for each transported client. The provision of transport can often be challenging. The PTU is working with client departments over the past months to brief them on the information required to be able to effectively procure transport in a safe and compliant manner.</p>	0	0	4	<p>Management have provided responses to ensure the factual accuracy of the report, have accepted the findings of the audit, and have agreed to implement the recommendations.</p> <p>The Principal Transport Officer has held initial discussions and set out actions that require support from Education/Social Work clients and Others to implement the recommendations during 2023 and into early 2024.</p>

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Subject: Passenger Transport (cont'd)	<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.</p> <p>Internal Audit have made the following recommendations, in addition to the Management Action to implement new contract management software, to assist with improvements in the efficiency and effectiveness of current practices:</p> <ul style="list-style-type: none"> • Procedures, at least in the form of work flowcharts, should be put in place for both PTU staff and client departments to follow. (Low) • A formal written policy should be developed that explicitly requires all internal transport to be delivered via the PTU. Client departments' staff should be advised that under no circumstances should they ever contact transport providers and attempt to arrange transport directly. (Low) • Recharges by the PTU to client departments is fundamental to the budget monitoring process and should be undertaken promptly following the end of each month. The process is time consuming and inefficient and alternative methods for direct charging should be explored. (Low) • Risks specifically related to transport of clients, particularly for those with identified additional needs, should be further considered and formally documented in the PTU Risk Register to ensure full coverage. (Low) 				

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