

Public Document Pack



AUDIT COMMITTEE MONDAY, 13 NOVEMBER 2023

A MEETING of the AUDIT COMMITTEE will be held VIA MICROSOFT TEAMS on MONDAY, 13 NOVEMBER 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.

N. MCKINLAY,
Director Corporate Governance,

3 November 2023

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute	5 mins
	(a) Minute - 25 September 2023 (Pages 3 - 12) Consider Minute of the Meeting held on 25 September 2023 for approval and signature by the Chair. (Copy attached.)	
	(b) Audit Committee Action Tracker (Pages 13 - 14) Consider update on Audit Committee actions. (Copy attached.)	
5.	Director Risk Management Presentation Consider presentation on corporate risks by Director People, Performance and Change.	30 mins
6.	Mid-Year Treasury Management Report 2023-24 (Pages 15 - 34) Consider Report by Director Finance and Procurement. (Copy attached.)	20 mins
7.	Internal Audit Work to October 2023 (Pages 35 - 44) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	15 mins

8.	Internal Audit Mid-Term Performance Report 2023-24 (Pages 45 - 58) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	15 mins
9.	Progress on Implementation of Internal Audit Recommendations Q2 2023-24 (Pages 59 - 66) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	15 mins
10.	Counter Fraud Controls Assessment 2023-24 (Pages 67 - 74) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	15 mins
11.	National Fraud Initiative 2022-2023 Exercise - Self-Appraisal Review Data Matches and Recording of Outcomes Phases (Pages 75 - 86) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
12.	Any Other Items Previously Circulated	
13.	Any Other Items which the Chairs 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

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

**SCOTTISH BORDERS COUNCIL
AUDIT COMMITTEE**

MINUTES of Meeting of the AUDIT COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St. Boswells and via Microsoft Teams on Monday, 25 September 2023 at 10.00 am

Present:- Councillors E. Thornton-Nicol (Chair), J. Anderson, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott, F. Sinclair, Mr S. Whalley and Mr P. Whitfield

Apologies:- Councillors P. Brown and N. Richards

In Attendance:- Chief Executive, Chief Officer Audit and Risk, Director – Corporate Governance, Director – Finance and Procurement, Director – Resilient Communities, Mr J. Boyd and Ms S. Harold (Audit Scotland) and Democratic Services Officer (D. Hall).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 27 June 2023.

DECISION

AGREED to approve the Minute for signature by the Chair.

2. **AUDIT COMMITTEE ACTION TRACKER**

2.1 There had been circulated copies of the Audit Committee Action Tracker which was presented by the Chief Officer Audit and Risk, Ms Jill Stacey.

2.2 With reference to paragraph 6 of the Minute of 22 November 2021 the Chief Officer Audit and Risk confirmed that work related to the Internal Audit Action was ongoing and that the Action would remain on the tracker.

2.3 With reference to paragraph 3 of the Minute of 13 March 2023, Ms Stacey confirmed that the Director Risk Management Presentation Action remained ongoing, with the Director-Infrastructure and Environment due to present to the Committee in March 2024.

2.4 With reference to paragraph 4 of the Minute of 10 May 2023, relating to Progress on LDS Financial Management, Ms Stacey highlighted that she had circulated the link to the relevant Integration Joint Board papers on Modern.Gov to the Committee and confirmed that the appropriate papers were included there for information.

2.5 With reference to paragraph 6 of the Minute of 10 May 2023, Ms Stacey confirmed that the Integrity Group would conduct the counter fraud maturity assessment during 2023/24 and report outcomes to the Audit Committee in May 2024.

2.6 With reference to paragraph 7 of the Minute of 27 June 2023, it was confirmed that a briefing note on the Aegon Monthly Income Unit Trust had been circulated to Audit Committee members by email on 29 August 2023. The Chair highlighted that the Council had full oversight of the Common Good Funds and Trusts, and that governance arrangements in place were strong and robust. Whilst the Aegon Investment Fund had delivered poor returns in the years following Covid-19, that was reflective of market conditions worldwide, and did not reflect on the governance arrangements of the Funds and Trusts. The Chair was confident that the action in the tracker had been completed and should be removed from the tracker. In response to a question regarding whether there had been a breach of investment rules via the Aegon Investment Fund, the Director

– Corporate Governance, Ms Nuala McKinlay, explained that the briefing note referred to in the Action Tracker had been asked to consider the risks associated with placing all Fund and Trust investments in one single fund. Ms McKinlay advised that if there was an alleged breach of investment rules then the Committee should be notified in advance to allow officers to investigate, and an appropriate item included on the agenda of a meeting to discuss the matter. Mr Whalley confirmed that he had requested that an item be placed on the agenda. The Chief Executive explained that the Council had an agreed policy in place to manage the Common Good Funds and Trusts with Aegon Investment Management. The Council received regular reports in terms of the performance of investments and monitoring reports were presented to Sub-Committees. Aegon had provided returns since inception in line with the objectives set by the Council, with regular income provided to Funds. Members were regularly briefed on the performance of the Fund and if there were concerns then the arrangements could be reviewed. Mr Whalley explained that the specific breach of rules he was referring to related to the investment strategy, which set out that between 0% and 30% of investments should be held in bonds. Currently Aegon held 51% of the Fund in bonds. The Chief Executive explained that the asset allocation strategy acted as a guideline, and that due to the nature of investments and markets there would be variations to the concentration of asset type held. The Chair confirmed that she was content that action in the tracker had been completed. In response to a question regarding PSN accreditation, the Chief Executive provided assurance that accreditation was in place in full for the Council.

DECISION

NOTED the update.

3. DIRECTOR RISK MANAGEMENT PRESENTATION

- 3.1 The Chair introduced the Director – Resilient Communities to give a presentation on corporate risks in the Resilient Communities service. The Director – Resilient Communities provided an overview of the various services for which she was responsible. Copies of the presentation had been circulated by email to the Committee. Economic Development was led by Sam Smith and focused on economic improvement and regeneration. Work relating to the two growth deals that the Council was signed up to was ongoing and considerable. Customer Advice & Support Services were focused on front facing customer service arrangements across a range of communication channels. The Business Administration and Support team were engaged with work across the Council supporting its effective operation. Communities and Partnerships were involved with work related to the Community Empowerment Act as well as supporting communities achieve their aspirations and ambitions. Accessing appropriate grant funding and supporting placemaking were other important elements of that team’s work. Mrs Craig highlighted that sport, leisure, and cultural facilities across the region were delivered through the strategic partnership with LiveBorders.
- 3.2 The Director – Resilient Communities explained that she was responsible for two corporate risks managed on behalf of the Council Management Team. The first risk was Community Planning Partnership, particularly that if there was not effective partnership working then it would not be possible to deliver on agreed strategies or realise objectives and outcomes. The risk was longstanding, and considerable work had gone into delivering improvements through internal controls and improving partnership work. A new Community Planning Partnership had been developed following the fundamental changes brought about by the Covid-19 pandemic. Mrs Craig presented the range of internal controls which were in place and highlighted that they ranged from fully effective to not effective. The implementation of the long-term Plan was the sole item listed as not effective, however that would be updated as a clearer picture became apparent over time. Two linked actions remained outstanding; however, progress was being made to ensure that they were completed. The second risk managed on behalf of the CMT Risk Register was Stakeholder Engagement, and how the Council engaged with its primary stakeholders. Mrs Craig highlighted that the risk had been managed for a considerable period of time, and provided assurance that work was ongoing to reduce risk. A

Community Engagement strategy was being developed and was expected to be presented to Council for adoption prior to the end of the year. Work on the development of the Locality Model had been paused whilst the Chief Executive pursued work related to the proposed Future Operating Model. The range of internal controls ranged from fully effective to not effective.

- 3.3 The Director presented the Service Risk Registers and explained that her presentation would focus primarily on the risks which had been scored as red on the red, amber, green rating. The majority of risks had been scored as amber. Mrs Craig highlighted that the risk level of path inspections and countryside bridge inspections had increased and confirmed that an assessment was being undertaken to assess whether the Council had sufficient staffing capacity to undertake the required work. External options would also be explored. Two risks under Customer Advice & Support Services had been scored as red: insufficient resources and online services. Mrs Craig explained that there had been significant turnover in staff within this service, particularly in those managing the telephony channels. There had been a negative impact on performance as a result of the staff turnover, however weekly meetings regarding the issue had taken place and a newly recruited cohort of staff were in the process of undergoing training. The delivery of online services had also been affected by capacity and staffing issues. The Council was in the process of developing a proactive plan to accelerate the work to deliver an improvement in its online services and it was anticipated that progress would be made over time. Mrs Craig confirmed that in line with the agreed Joint Strategic Review between SBC and Live Borders that was underway, officers were identifying and discussing related threats and opportunities and were establishing the best ways in which to capture those as part of the Council's Risk Management process.
- 3.4 In response to a question regarding how risk management arrangements operated associated with services delivered in partnership with third parties, Mrs Craig explained that as part of the procurement process regular meetings were held to assess risk and where significant issues were identified they would be brought into the risk register. Regarding training for managers on how to manage risk, it was highlighted that significant training was offered to all managers, in particular new managers. All Directors within the Council had the capability to check whether managers in their service had completed the appropriate level of training. The Corporate Risk Officer, Ms Emily Elder, confirmed that there was a risk management process guide which would be signposted to new managers. Quarterly risk management reports were also being cascaded to risk owners across the Council. In response to a question regarding the effectiveness of controls in the context of stakeholder engagement, Mrs Craig acknowledged that a lot of the controls were listed as partially effective and confirmed that it remained a priority to deliver effective engagement which the communities of the Scottish Borders felt invested in. Mrs Craig confirmed that a report on the outcome of the Community Conversation sessions would be produced, and the feedback presented to Council. In response to a question regarding work to improve the strategic relationship with LiveBorders, Mrs Craig provided assurance that part of the ongoing review concerned governance arrangements and refreshing the partnership agreement in place. The Chief Officer – Audit and Risk confirmed that as part of the wider service provision agreements in place that risk management services were also provided to Live Borders, the IJB and Pension Fund. In response to a question regarding the Regional Development Strategy being categorised as amber, Mrs Craig undertook to assess whether the register needed to be updated to properly reflect current risk. Regarding the ability of the public to contact Council officers via telephone, Mrs Craig acknowledged that due to staffing issues there had been performance problems and highlighted that through the effective use of technology it would be possible to deliver improvements in the area.

DECISION

NOTED the presentation.

4. INTERNAL AUDIT WORK TO 30 JULY 2023

- 4.1 With reference to paragraph 6 of the Minute of the meeting held on 10 May 2023, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements. The work Internal Audit had carried out in the period from 1 April to 31 July 2023 associated with the delivery of the approved Internal Audit Annual Plan 2023/24 was detailed in this report. A total of 6 final Internal Audit reports had been issued. There were 8 recommendations made associated with 5 of the reports (0 High-rated; 3 Medium-rated; 5 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 the 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. The Chief Officer Audit and Risk presented the report and highlighted that minor tweaks had been made to the internal audit plan as a result of adopting an agile way of working. Ms Stacey outlined that following the retirement of the Council's Principal Internal Auditor, Ms Sue Holmes, the recruitment process for a replacement had been undertaken. An offer had been made to the preferred candidate, with a start date of 20 November identified. The Internal Audit Team would be fully staffed following that appointment. Ms Stacey confirmed that standard practice had been followed in respect of internal audit items, with relevant officers expected to use the IDEAGEN system to update progress. The internal audit team would follow up to ensure that progress had been made and evidence was required. With regard to the Looked after Children audit work, Ms Stacey confirmed that the recommendation had been rated as low due to the substantial level of assurance provided and the ongoing work being undertaken by Council Management Team. The Council was aware of the high-risk nature of this service area and was taking steps to ensure that the risk was appropriately managed. Ms Stacey undertook to include the Corporate risk rating (Red, Amber or Green) that identified the overall risk associated with each audit area. In response to a question regarding line managers ensuring that staff were completing mandatory training on which there were two separate Internal Audit recommendations, Ms Stacey explained that more action needed to be taken by Managers to ensure that staff completed Health and Safety training (medium-rated), but there was a recognition that staff completing updated training modules on Complaints would take time following the implementation of new policies and procedures (low-rated). The Chair expressed her thanks for the work undertaken by the Internal Audit Team.

DECISION

(a) NOTED:

- (i) the Executive Summaries of the final Internal Audit assurance reports issued in the period from 1 April to 31 July 2023 associated with the delivery of the approved Internal Audit Annual Plan 2023/24;**
- (ii) the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter**

(b) AGREED:

- (i) to acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and**
- (ii) approve the minor amendments to the Internal Audit Annual Plan 2023/24, as set out in the report.**

5. AUDIT SCOTLAND FRAUD AND IRREGULARITY REPORT 2022/23

With reference to paragraph 6 of the Minute of the meeting held on 12 September 2022, there had been circulated copies of a report by the Chief Officer Audit and Risk which made the Committee aware of a recently published counter fraud report by Audit Scotland and the Management Actions required in response for improvement and assurance purposes. Having robust fraud prevention and investigation arrangements in place contributed to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud, taking account of reducing resources, were associated with the Counter Fraud Strategy 2021-2024 that was approved by Council in December 2021. The purpose of the Integrity Group was to improve the Council's resilience to fraud, theft, corruption, and crime. One way it could achieve that was self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place. The report referred to a national fraud report recently published by Audit Scotland, which set out recommendations for public sector organisations. Part of the Audit Committee's role was to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions, and resources. The Chief Officer Audit and Risk presented the report and highlighted that the members of the Integrity Group had been made aware when the National Fraud and Irregularity report had been published. In response to a question regarding the confidence that frauds were being detected, Ms Stephanie Harold explained that the guidance outlined that frauds over £5k needed to be reported to Audit Scotland, however working with the Police and through the use of correct working practices, lower levels of fraud would be detected. Ms Stacey highlighted that the Scottish Local Authority Investigators Group were very active and shared a lot of information and insight into fraud trends and anti-fraud work. Frauds above £5k were reported in line with the proper mechanisms, and where other frauds were detected, they would be reported through normal procedures. The Chair highlighted that all the Council had a responsibility to tackle fraud.

DECISION

AGREED to:

- (a) acknowledge the Audit Scotland Fraud and Irregularity Report 2022/23 published in recent months;**
- (b) endorses the tasks being undertaken by the Integrity Group, associated with the recently published counter fraud report by Audit Scotland, as set out in Action Plan in paragraph 4.6 of this report; and**
- (c) request that the Integrity Group report back to the Audit Committee on its findings and proposed further actions arising from these tasks.**

6. ANNUAL TREASURY MANAGEMENT REPORT 2022/23

With reference to paragraphs 9 of the Minute of the meeting of Scottish Borders Council held on 22 February 2022 and paragraph 11 of the meeting of Scottish Borders Council held on 15 December 2022, there had been circulated copies of a report by the Director – Finance and Procurement which presented the annual treasury management activities undertaken during the 2022/23 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 2023 and the performance of the Treasury function. Appendix 1 to the report was the annual report of treasury management activities for 2022/23 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 12 December 2022. The Appendix showed the Council's borrowing requirement to fund the capital investment undertaken

during 2022/23, 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 again, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. 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 2023. The Director – Finance and Procurement presented the report and in response to a question regarding surplus capital confirmed that interest was earned on cash held.

DECISION

AGREED to:-

- (a) note that treasury management activity in the year to 31 March 2023 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in the report and in Appendix 1 to the report; and**
- * (b) recommend the report to Council for approval.**

7. EXTERNAL AUDIT ANNUAL AUDIT REPORTS 2022/23

7.1 There had been circulated copies of the Scottish Borders Council Pension Fund 2022-2023 Annual Audit Report, Audit Scotland Scottish Borders Council annual report and associated covering letters. The report summarised the findings from the 2022/23 annual audit of the Scottish Borders Council. The key messages of the report included that Audit Scotland's audit opinion on the annual accounts of Scottish Borders Council and its group were unmodified, which meant that the financial statements and related reports were free from material misstatements. Adjustments had been made to the annual accounts as a result of the audit process. The Council continued to balance its budget each year and operated within budget in 2022/23. Whilst facing significant financial challenges through inflationary pressures on pay and non-pay costs as well as demand on services, the Council continued to demonstrate sound financial management maintaining reserves in line with the long-term Revenue Financial Strategy. There were appropriate and effective budget setting, financial management and monitoring arrangements in place. Medium and longer-term financial plans reflected the Council's strategic priorities and outcomes. The Council plan outlined the Council's vision for 2033 and elected members had shaped that vision. The Council had elements of an effective performance framework but needed to ensure it could measure its performance against clearer outcome-based targets for the next ten years. A Best Value Assurance Report on Scottish Borders Council was published in October 2019, containing seven improvement recommendations. The Council had concluded these had been addressed. Governance arrangements were appropriate and operated effectively. There was effective scrutiny, challenge and informed decision making. There was strong partnership working to meet the health and social care challenges facing the Scottish Borders. The Council failed to comply with the statutory requirement for their significant trading operation, SBc Contracts to break even.

7.2 Mr Boyd presented the Scottish Borders Council 2022/23 Annual Audit Report and explained that overall materiality threshold for the annual audit was set with reference to gross expenditure, with the figure set at £250k. There had been no material misstatements identified in relation to the valuation of land or buildings. It was highlighted that the Council had one significant trading operation, SBc Contracts, and that under the Local Government in Scotland Act 2003 the operation was obligated to break even over a rolling three-year period. SBc Contracts had reported an operating surplus of £1.299 million in 2022/23. However, following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position was a deficit for 2022/23 of £75,000 for external works and a three-year cumulative deficit of £0.331 million. Mr Boyd explained that this did not represent a material misstatement but did require work to change the recharging process in place. Regarding the Pension ceiling asset, the unaudited accounts recognised the Council's share of the pension scheme assets and liabilities in accordance with IAS 19. During the course of the audit, management had

engaged with the actuary to provide an actuarial valuation of the asset ceiling in accordance with IFRIC 14. The information was not received during the course of the audit; however, the audit team had reviewed the actuarial assumptions and were satisfied that it was appropriate. Mr Boyd highlighted that a judicial review had concluded that all Council assets built on Common Good land could not be considered as owned separately from the land they stood on and were therefore Common Good assets. The Council had a number of operational assets which were on Common Good land, and it had been recommended that a formal agreement between the Council and Common Good funds was put in place for the use of the assets. The issue was not unique to Scottish Borders Council. It was highlighted that good financial management arrangements were in place, and that the Council operated within its budget for the year. The Council continued to balance its budget each year and the level of reserves was in line with the long-term Revenue Financial Strategy. There were appropriate and effective budget setting, financial management and monitoring arrangements in place. Mr Boyd outlined that vision, leadership, and governance as well as best value had formed part of the wider thematic review of the audit. Governance arrangements were appropriate and operated effectively and there was effective scrutiny and informed decision making. The key aspects of the agreed action plan were presented, and Mr Boyd confirmed that management had agreed to the actions.

- 7.3 In response to a question regarding how progress against the agreed actions would be reported, the Director – Finance and Procurement explained that an operational action plan on how to deliver the outcomes would be drawn up and could be shared with the Committee. Individual actions would have a responsible officer. Regarding the Council's under-borrowed position, Mrs Douglas explained that the Council set aside part of its revenue budget to pay back loans each year. Revenue reports and balances were reported quarterly, with a view to adding to the treasury reserve over two years. It was confirmed that underspend from previous years would be used to smooth peaks and troughs in costs associated with borrowing. Mrs Douglas confirmed that on the advice of treasury advisors the Council had sought to borrow on the short term throughout 2022/23 due to the high rate of interest. In response to a question regarding comments received at the Pension Fund Committee meeting regarding the annual accounts, Mrs Douglas explained that there had been recognition that whilst the Fund's assets had reduced in value in 2022/23 there had also been a decrease in the liabilities of the fund by a greater amount. That was expected to result in a better funded position. The triennial valuation by the actuary would confirm the Fund's funding position as at 31 March 2024. In response to a question regarding the operating deficit of SBc Contracts, Mr Boyd explained that due to the IAS19 pension liability and internal recharges the entity was deemed an internal service. Mrs Douglas explained that the work of Audit Scotland had concluded that when SBc Contracts staff were carrying out work on behalf of SBC, there was an obligation for SBC to recognise that they worked for the Council. The Chief Executive confirmed that the deficit referred to in the report was a combination of accounting adjustments for pension and holiday pay not taken. In response to a question regarding Mr Boyd's outlook, Mr Boyd outlined that all Local Authorities faced different, unique challenges. Financial challenges were common to all Local Authorities across Scotland. Scottish Borders Council appeared to be operating with an understanding of their environment and how they needed to change and use technology to ensure that it was sustainable and could continue to deliver services. In response to a question regarding the funding position of the Pension Fund, the Chief Executive confirmed that whilst the value of assets had fallen, the overall liabilities of the Fund had fallen by a greater degree. Discussions would take place with the Actuary regarding the level of funding position to maintain following the completion of the valuation. In response to a question regarding the recommendation to put in place formal agreements governing the use of Common Good assets, Mrs Douglas confirmed that the focus of such agreements would be the use of buildings. The Director – Corporate Governance highlighted that a school building in Peebles was located on Common Good owned land, and that school therefore belonged to the Common Good as a matter of law. Municipal use of the building would continue, and a full agreement would be put place. Mrs McKinlay explained that

there was not expected to be a financial benefit to the Common Good Funds of the formal agreements. The Director highlighted that whilst Common Good Funds are separate legal bodies to the Council, the Council met operational costs and did not charge for the administration of the Funds. In response to a question regarding changes made to the management commentary of the statutory external audit process, Mrs Douglas explained that no material changes had been made. Minor alterations had been undertaken, largely to improve comprehensibility. Mr Boyd confirmed that in respect of management commentary the audit was compliant with the requirements of the code. In response to a question regarding updates on action plan actions, Mrs Douglas undertook to provide updates as they became available. The Chair highlighted that in regard to the Best Value action agreed in December 2019 in response to the Best Value Assurance Report, a further best value report had been circulated with the annual audit report. Mrs Douglas confirmed that an action plan formed part of the new report. The Chair confirmed that she was happy for the previous actions related to best value to be marked as complete, with the new plan to supersede that.

DECISION

- (a) NOTED the Annual Reports from the Council's External Auditors prior to Council approval; and**
- (b) AGREED to request updates from the Director – Finance and Procurement on progress against the agreed actions in the Action Plans from within the SBC 2022/23 Annual Audit Report and the Best Value thematic report.**

8. ANNUAL REPORT AND ACCOUNTS

With reference to paragraph 7 of the Minute of the meeting held on 27 June 2023 there had been circulated copies of a report by the Director – Finance and Procurement which presented copies of the Council's audited Annual Accounts for 2022/23. The audit appointment of Audit Scotland for Scottish Borders Council (SBC) accounts included the requirement to provide an auditor's report for the Council. 2022/23 represented the first year of new Audit Scotland team undertaking the External Audit of the Council's Annual Accounts with the process now completed. Audit Scotland had prepared both the Annual Audit Report and a Best Value thematic report and had provided an unqualified independent audit opinion. The Annual Audit Report summarised Audit Scotland's conclusions, including an unqualified audit opinion. Audit Scotland concurred with management's accounting treatment and judgements; and Audit Scotland concluded positively in respect of financial management, financial sustainability, vision, leadership and governance and use of resources to improve outcomes. Audit Scotland identified the following recommendations across 3 reports. Four recommendations for improvement requiring action were identified along with two follow-ups to prior year recommendations within the Scottish Borders Council annual report. Six recommendations for improvement requiring action were identified in the Scottish Borders Council Best Value thematic review. Four recommendations for improvement requiring action were identified along with one follow-up to prior year recommendation for the Scottish Borders Council Pension Fund. All recommendations had been accepted by management and will be enacted within the agreed timescales. As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Pension Fund, Bridge Homes LLP, Lowood Tweedbank Ltd and SB Inspires LLP were being presented to the Audit Committee prior to signature. It should be noted that, as approved by Council on the 30 March 2023, SBC Common Good Funds were removed from the Scottish Charity Register on 31st March 2023. Following that deregistration, annual accounts had not been prepared, audited, or submitted to OSCR. The Common Good funds had instead been consolidated within the Council's statutory accounts. Trusts did not have the same annual accounts statutory deadline as the Council and Pension Fund. In addition, the trusts were presented to Council members in their role as Trustees rather than as full Council. That would be done for 2022/23 via correspondence. Audit Scotland would provide a letter to Councillors as trustees at the completion of the audit, in advance of the reporting deadline of 31 December 2023. Bridge Homes LLP,

Lowood Tweedbank Ltd and SB Inspires accounts had been prepared in accordance with the special provisions applicable to companies subject to the small companies' regime. For financial year 2022/23 the companies were entitled to exemption under section 477 of the Companies Act 2006 which meant their accounts did not require to be audited. The Director – Finance and Procurement presented the report and responded to Members questions. Regarding the submission of the accounts of SB Inspires to Companies House, the Chief Executive explained that the accounts had been submitted by the deadline, however due to a technical recording issue Companies House had refused to accept them. The Director confirmed that SBC had evidenced that the accounts had been submitted by the deadline. Mrs Douglas outlined that an issue regarding the location of a specific statutory paragraph within the accounts had also been resolved. The Chief Executive acknowledged ongoing frustrations related to the inability to submit LLP accounts online. In response to a question regarding RAAC concrete, it was confirmed that no RAAC had been identified within the Council's estate, and that fact would be highlighted when the report was presented to Council.

DECISION

*** 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.

9. **URGENT BUSINESS**

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

10. **EQUAL PAY CLAIMS**

The Chair explained that a specific question had been raised regarding potential financial risk that Scottish Borders Council could face comparable to that faced by Birmingham City Council because of costs associated with settling equal pay claims. The Chair confirmed that Scottish Borders Council had no outstanding or current equal pay claims. The grading system used for determining pay scales had given equal weight to roles and there

was no distinction between male and female in comparable roles as had happened in Birmingham.

The meeting concluded at 1.00 pm.

ACTION TRACKER

SCOTTISH BORDERS COUNCIL AUDIT COMMITTEE 2023/24

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	The Internal Audit follow-up activity Q2 2023/24 has indicated the completion of one remaining Internal Audit action 'Business Continuity - Resources & Training'. <i>Complete</i>
13 March 2023				
Director Risk Management Presentation	AGREED that the Director Infrastructure and Environment would bring back an update on service risks following the establishment of the Project Programme Management Office (PMO).	Infrastructure and Environment	John Curry	Internal Audit follow-up re Capital Investment is ongoing; PMO Role Specification and Terms of Reference of Strategic Asset Management Group in place though still too early to change risk score. Cycle of Directors' risk presentations agreed to February 2024 – propose Director I&E update March 2024.
10 May 2023				
Progress Update on LDS Financial Management Recommendation	AGREED: (i) To pursue a joint IJB/SBC audit committee review of the LDS progress on the financial management recommendations by May 2024; and, (ii) To recommend to the Integration Joint Board Audit Committee to look at Best Value of the service to ensure it is operating accordingly	Health & Social Care IJB	Chris Myers / Simon Burt	Links were provided to SBC Audit Committee to the published agendas and reports on modern.gov of the Integration Joint Board and its Audit Committee. To be included in Agenda papers for IJB Audit Committee in accordance with its monitoring of IJB Directions. Next meeting is scheduled in December 2023.
Counter Fraud Annual Report 2022-23	AGREED that the Chief Officer Audit and Risk would present to the Committee, after the counter fraud maturity assessment, a report on counter fraud effectiveness.	Audit & Risk	Jill Stacey	Integrity Group will conduct the counter fraud maturity assessment during 2023/24 and report outcomes within Counter Fraud Annual Report 2023/24 to Audit Committee in May 2024.

Page 13

Agenda Item 4b

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
25 September 2023				
Audit Scotland Fraud and Irregularity Report 2022/23	AGREED to request that the Integrity Group report back to the Audit Committee on its findings and proposed further actions arising from these tasks.	Audit & Risk	Jill Stacey	The Integrity Group has carried out the counter fraud controls assessment 2023/24 using the public sector reported fraud cases. Report to be presented to Audit Committee on 13 November 2023. <i>Complete</i>
External Audit Annual Audit Reports 2022/23	AGREED to request updates from the Director – Finance and Procurement on progress against the agreed actions in the Action Plans from within the SBC 2022/23 Annual Audit Report and the Best Value thematic report.	Finance	Suzy Douglas	



TREASURY MANAGEMENT MID-YEAR REPORT 2023/24

Report by Director of Finance & Procurement

AUDIT COMMITTEE

13 November 2023

1 PURPOSE AND SUMMARY

- 1.1 This report presents the mid-year report of treasury management activities for 2023/24, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2023 and demonstrates that Treasury activity in the first six months of 2023/24 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2022/23 out-turn and experience in 2023/24 to date for Council approval.

2 RECOMMENDATIONS

2.1 It is recommended that the Audit Committee:

- (a) Notes that treasury management activity in the six months to 30 September 2023 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) Agrees to the presentation of the Treasury Management Mid-Year Report 2023/24, as contained in Appendix 1, to Council for approval of the revised indicators.**

3 BACKGROUND

- 3.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2023/24 at the Council on 23 February 2023. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 3.2 As set out in the annual Treasury Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

4 TREASURY MANAGEMENT MID-YEAR REPORT 2023/24

- 4.1 The Treasury Management Mid-Year Report for 2023/24 (the Mid-Year Report) is contained in Appendix 1. All of the 2023/24 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 23 February 2023.
- 4.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- (a) An economic update for the first six months of 2023/24;
 - (b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - (c) The Council's capital expenditure (prudential indicators);
 - (d) A review of the Council's investment portfolio for 2023/24;
 - (e) A review of the Council's borrowing strategy for 2023/24; and
 - (f) A review of compliance with Treasury and Prudential Limits for 2023/24.
- 4.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval.
- 4.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

5 IMPLICATIONS

- 5.1 **Financial**
There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.
- 5.2 **Risk and Mitigations**
This report is an account of the outcomes delivered at the six month stage from the tightly controlled risk management work that the Council's Treasury staff have carried out; Appendix 1 gives further detail on these controls. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

5.3 **Integrated Impact Assessment**

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine financial monitoring report which forms part of the governance of the Treasury function within the Council. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

5.4 **Sustainable Development Goals**

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

5.5 **Climate Change**

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

5.6 **Rural Proofing**

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

5.7 **Data Protection Impact Statement**

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

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

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

6 **CONSULTATION**

- 6.1 The Chief Legal Officer (including as Monitoring Officer), the Chief Officer Audit and Risk, Director People Performance & Change, Communications and the Clerk to the Council are being consulted and any comments will be reported to the meeting.

Approved by

Suzy Douglas

Signature

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Director of Finance & Procurement - Tel 01835 824000 Ext 5881
Kirsten Robertson	Statutory Reporting and Treasury Business Partner - Tel 01835 824000 Ext 5506

Background Papers:

Previous Minute Reference: Scottish Borders Council, 23 February 2023

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

Contact us at Finance, Council Headquarters, Newtown St Boswells, Melrose, TD6
0SA. Tel: 01835 824000 Fax: 01835 825166 Email: t&cteam@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT MID-YEAR REPORT 2023/24

1. BACKGROUND

a) Treasury management is defined as:

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

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

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

d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2023/24 as highlighted throughout this report.

2 ECONOMIC POSITION

2.1 ECONOMIC UPDATE *(from Link Group)*

- The first half of 2023/24 saw:
 - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
 - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
 - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
 - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
 - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
 - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was “finely balanced”. Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures “further tightening in policy would be required”. Governor Bailey stated, “we’ll be watching closely to see if further increases are needed”. The Bank also retained the hawkish guidance that rates will stay “sufficiently restrictive for sufficiently long”.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100’s relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

2.2 INTEREST RATE FORECAST

- a) The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.
- b) The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.
- c) Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- i. The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There have been no policy changes to the Statement. The details in this report update the position in light of updated economic position and budgetary changes.
- ii. Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 23 February 2023. There are no further policy changes to the Statement. The details in this report including Annexes A, B and C provides an update on Treasury Management activities, including Prudential and Treasury Management Indicators.

4 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2023/24

4.1 This part of the report is structured to update:

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

4.2 CAPITAL EXPENDITURE

(Prudential Indicator (PI-1))

a) The original capital plan for 2023/24 was approved on 23 February 2023. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2023/24.

Table 2	2023/24 Original Budget	2023/24 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Assets & Infrastructure	39.9	47.1	7.2
Other Corporate Services	11.1	13.9	2.8
Children & Young People	40.0	37.7	(2.3)
Culture & Sport	0.9	1.0	0.1
Economic Regeneration	18.8	15.2	(3.6)
Housing Strategy & Services	0.6	1.0	0.4
Social Care Infrastructure	14.1	1.6	(12.5)
Emergency & Unplanned Schemes	-1.7	-0.9	0.8
Total Capital Expenditure (PI-1)	123.7	116.6	(7.1)

¹ Executive Committee 14 November 2023

b) The current approved budget for 2023/24 is less than the original budget mainly due to timing movements in the Care Villages in Tweedbank and Hawick. Detailed explanations of the movements within the planned expenditure have been reported in the quarterly monitoring reports, the last of which was to the Executive Committee on 14 November 2023.

4.3 FINANCING OF THE CAPITAL PROGRAMME

- a) **Table 3** draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2023/24 capital programme.

Table 3	2023/24 Original Budget	2023/24 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Capital Expenditure (PI-1)	123.7	116.6	(7.1)
Other Relevant Expenditure	-	-	-
Total Expenditure	123.7	116.6	(7.1)
<i>Financed by:</i>			
Capital receipts	-	(1.6)	1.6
Capital from Revenue (CFCR)	(2.9)	(2.7)	(0.2)
Developer Contributions	(0.5)	(0.6)	0.1
Govt. General Capital Grant	(12.0)	(24.6)	12.6
Govt. Specific Capital Grant	(15.0)	(2.3)	(12.7)
Other Grants & Contributions	(20.8)	(21.5)	0.7
Replacement Funds	(2.4)	(5.8)	3.4
Total Financing	(53.6)	(59.1)	5.5
Net Financing Need for the Year	70.1	57.5	(12.6)

¹ Executive Committee 14 November 2023

- b) The decrease in overall financing need is a combination of the reduced projected capital expenditure as detailed in table 2 above, along with a net increase in government grants.

4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council's accounts for the year ending 31 March 2023; this has resulted in a variance of £18.8m in the CFR.

Table 4	2023/24 Original estimate	2023/24 Revised estimate	Variance
	£m	£m	£m
CFR * (PI-2)	444.4	425.6	18.8

The CFR for this calculation includes current capital expenditure assumptions to 30 September 2023.

ACTUAL EXTERNAL DEBT (PI-5)

- iii) Projected external debt for 2023/24 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. In cash terms, the borrowing figure is lower than originally projected in line with the reduced net financing need as detailed above. A variance in cash levels held at the year-end compared to those projected also impact on the variance below.
- v) Due to the overall financial position and the timing of the capital programme, there has been no new external borrowing undertaken so far this year.

Table 5	2023/24 Original estimate	2023/24 Current Approved Budget	Variance
	£m	£m	£m
Borrowing	262.8	208.3	(54.5)
Other long-term liabilities	110.3	110.3	-
Total External Debt (PI-5)	373.1	318.6	(54.5)

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

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cash-flows to finance capital expenditure minimising the need to enter into additional debt financing arrangements.

Table 6	2023/24 Original estimate	2023/24 Current Approved Budget	Variance
	£m	£m	£m
Gross External Debt	373.1	318.6	(54.5)
CFR *	444.4	425.5	(18.9)
(Under)/Over Borrowing against CFR (PI-6)	(71.3)	(106.9)	35.6

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

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

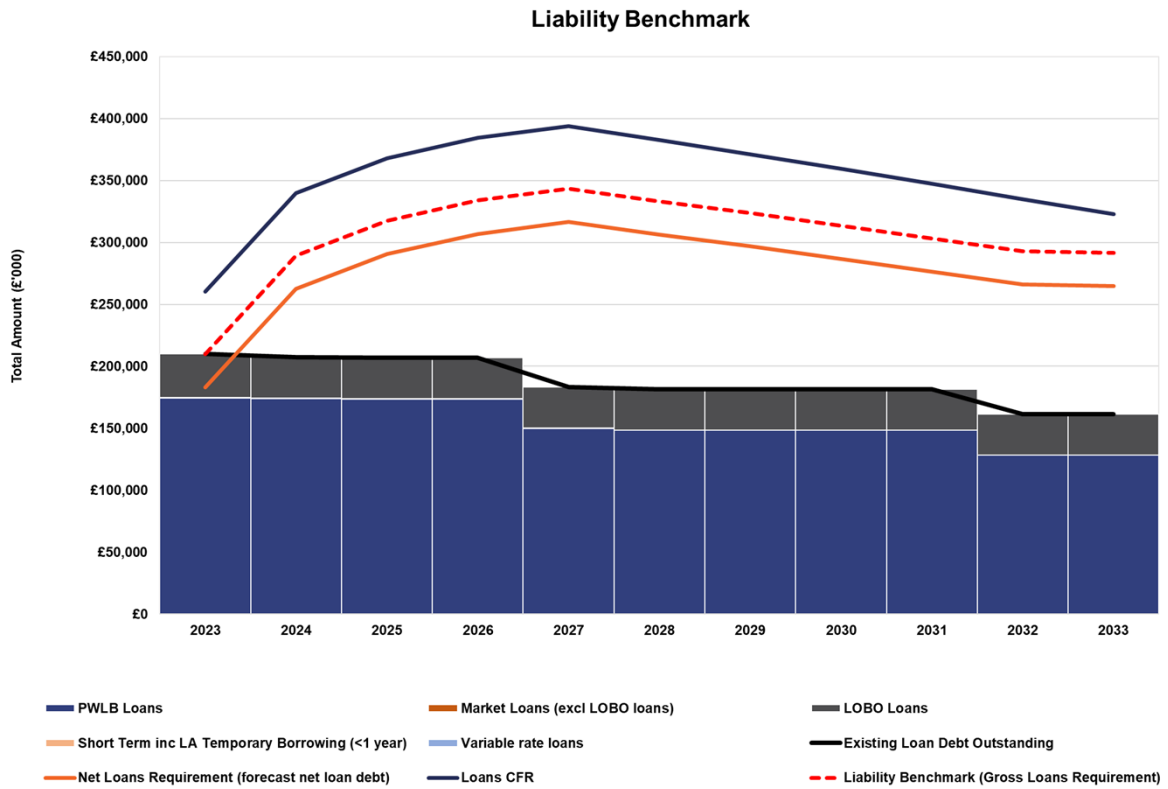
AUTHORISED LIMIT AND OPERATIONAL BOUNDARY (PI-7 and PI-8)

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
 - (ii) The **Operational Boundary** which shows the expected operational debt position for the period.
- x) **Table 7** below shows revised estimates for the debt indicators for the 2023/24 financial year and compares them with the original estimates shown in the 2023/24 Treasury Management Strategy Report.

Table 7	2023/24 Original estimate £m	2023/24 Revised estimate £m	Variance £m
Gross External Debt (PI-5)	373.1	318.6	(54.5)
Authorised Limit inc. Long Term Liabilities(PI-8a)	608.0	567.4	(39.6)
<i>Variance to External Debt Estimate</i>	<i>234.9</i>	<i>248.8</i>	<i>8.9</i>
Operational Boundary inc. Long Term Liabilities (PI-7a)	506.6	472.8	(34.1)
<i>Variance to External Debt Estimate</i>	<i>133.5</i>	<i>154.2</i>	<i>20.7</i>

LIABILITY BENCHMARK

- xi) A new prudential indicator for 2023/24 is the Liability Benchmark. The graph shows the current Liability Benchmark for 2022/23 plus ten years in line with the Capital Plan. This shows the impact of the current position plus approved capital programme (including prudential borrowing). It does not include any projected additional borrowing or requirement beyond that (albeit that borrowing may well be required depending on plans at the time).
- xii) The graph shows the Council to be in an under-borrowed position with a requirement for further borrowing in future years.



4.5 DEBT RESCHEDULING

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

5 INVESTMENT ACTIVITY

5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.
- b) The Council held £51.0m of balances in interest bearing accounts as at 30 September 2023 (£27.0m at 31 March 2023). As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The increase in the level of balances invested from March to September, highlighted above, are due to timing differences between the receipt of grant funding and corresponding capital expenditure, detailed in section 4.4 above.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term.

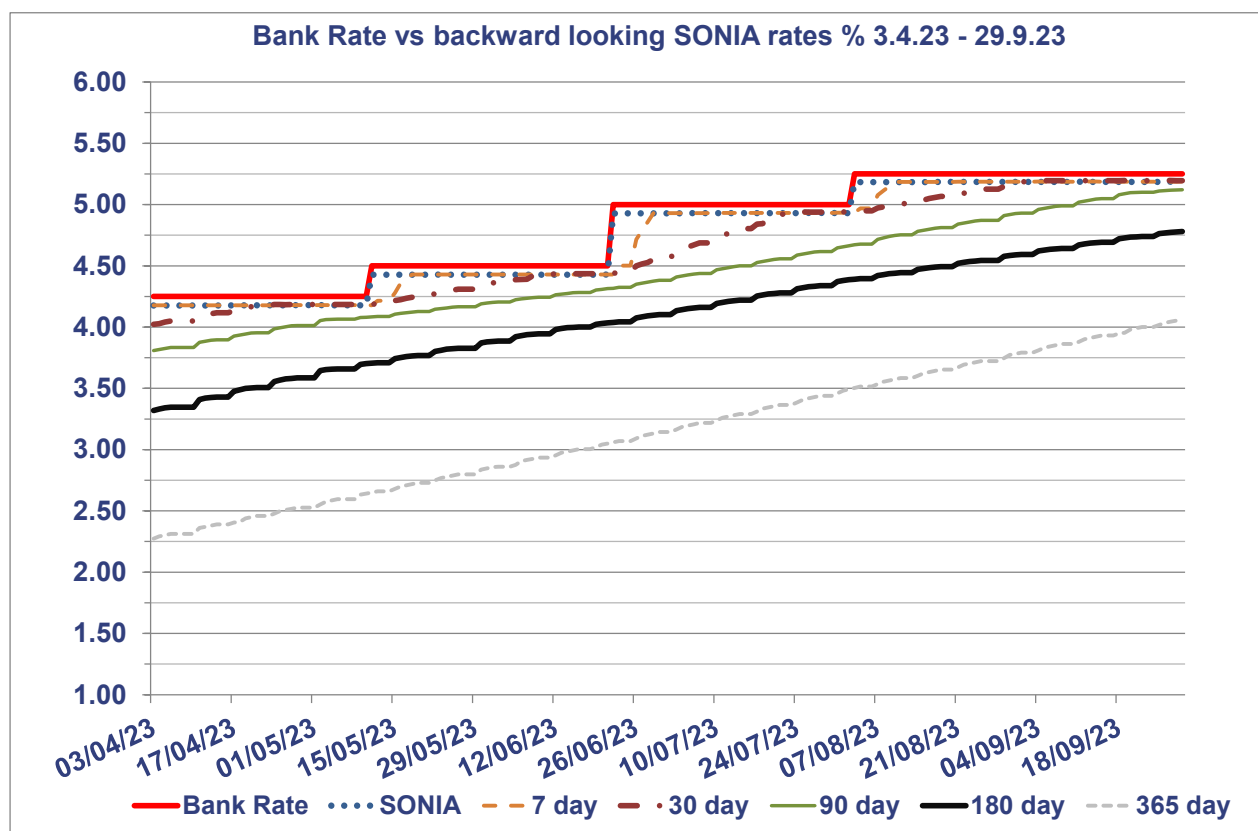
Creditworthiness

- e) The current list of countries that were approved in the Treasury Management Strategy are shown in Annex C. Fitch remain reporting the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook however Standard & Poors moved to Stable Outlook in April 23 following the government's decision to remove the budgetary proposals from September 2022 thus improving the fiscal outlook.

5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.
- b) Considering security, liquidity and yield of investment, priority is given to security. Daily updates and reports are received from Link Asset Services that allow officers to assess the continued credit worthiness of investment counter parties.
- c) All investments undertaken are on a short term, highly liquid basis, allowing access to invested funds at 1 days notice. The investments held at 30th September 2023 are detailed in Annex B.
- d) Interest rates are also monitored on a daily basis to ensure the best return is obtained. Target for internal return on cash investment is to be above the 365 day backward looking SONIA (Sterling Overnight Index Average) un compounded rate. The return for six months to 30

September 2023 has averaged 4.74%, compared against an average 365 day backward looking SONIA (Sterling Overnight Index Average) uncompounded rate of 4.00%.



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.12	4.78	4.06
High Date	03/08/2023	29/09/2023	04/09/2023	27/09/2023	29/09/2023	29/09/2023	29/09/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.81	4.74	4.71	4.64	4.44	4.10	3.16
Spread	1.00	1.01	1.01	1.17	1.31	1.46	1.79

The table above covers the first half of 2023/24.

LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council’s Financial Plans approved on 23 February 2023 was £19.3m. It is expected that charges for 2023/24 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year.

ANNEX A

Indicator Reference	Indicator	Page Ref.	2023/24 Original estimate	2023/24 Revised estimate
PRUDENTIAL INDICATORS				
Capital Expenditure Indicator				
PI-1	Capital Expenditure Limits (£m)	6	123.7	116.5
PI-2	Capital Financing Requirement (£m) (CFR)	8	444.4	425.5
Affordability Indicator				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	8.5%	6.5%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	£(0.01)	£(0.01)
External Debt Indicators				
PI-5	External Debt (£m)	9	373.1	318.6
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	9	506.6	472.8
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	366.3	362.5
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	9	608.0	567.4
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	496.7	457.1
Indicators of Prudence				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	9	(154.3)	(237.5)
TREASURY INDICATORS				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		506.6	472.8
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		177.3	165.5
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		Lower	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	12	20%	20%

ANNEX B

Treasury Deposits held as of 30th September 2023 compared to our counterparty list:

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	5,000,000	5.35%		MMF	AAA _m	
MMF Aviva	5,000,000	5.26%		MMF	AAA _m	
MMF BlackRock	5,000,000	5.21%		MMF	AAA _m	
MMF Federated Investors (UK)	5,000,000	5.39%		MMF	AAA _m	
MMF LGIM	5,000,000	5.29%		MMF	AAA _m	
DMO	2,000,000	5.20%	10/08/2023	20/10/2023	AA-	0.001%
DMO	1,000,000	5.20%	11/08/2023	20/10/2023	AA-	0.001%
DMO	1,500,000	5.28%	23/08/2023	20/10/2023	AA-	0.001%
DMO	2,000,000	5.29%	17/08/2023	30/10/2023	AA-	0.002%
DMO	1,500,000	5.29%	25/08/2023	30/10/2023	AA-	0.002%
DMO	2,500,000	5.28%	01/09/2023	30/10/2023	AA-	0.002%
DMO	1,500,000	5.28%	04/09/2023	30/10/2023	AA-	0.002%
DMO	1,000,000	5.29%	11/09/2023	30/10/2023	AA-	0.002%
DMO	2,500,000	5.17%	29/09/2023	30/10/2023	AA-	0.002%
DMO	2,500,000	5.30%	08/09/2023	10/11/2023	AA-	0.003%
DMO	2,000,000	5.32%	13/09/2023	22/11/2023	AA-	0.003%
DMO	1,000,000	5.36%	19/09/2023	29/11/2023	AA-	0.004%
DMO	1,500,000	5.30%	20/09/2023	29/11/2023	AA-	0.004%
DMO	1,000,000	5.20%	27/09/2023	29/11/2023	AA-	0.004%
DMO	2,500,000	5.20%	28/09/2023	29/11/2023	AA-	0.004%
Total Investments	£51,000,000	5.28%				0.002%

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

ANNEX C: Approved countries for investments as of 30th September 2023

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France (downgraded by Fitch on 9th May 2023)
- Qatar
- **U.K.**

This page is intentionally left blank

INTERNAL AUDIT WORK TO OCTOBER 2023

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 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 August to 27 October 2023 associated with the delivery of the approved Internal Audit Annual Plan 2023/24 is detailed in this report. A total of 4 final Internal Audit reports have been issued. There were 2 recommendations made associated with 1 of the reports (0 High-rated; 2 Medium-rated; 0 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 August to 27 October 2023 (Appendix 1) associated with the delivery of the approved Internal Audit Annual Plan 2023/24;**
 - b) Notes the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter;**
 - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and**
 - d) Approve the minor amendments to the Internal Audit Annual Plan 2023/24, as set out in paragraph 4.8.**

3 BACKGROUND

- 3.1 The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 13 March 2023. 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, an Audit Assignment detailing the scope, objectives and timing is agreed with the relevant Director and Service Management; at the conclusion of the fieldwork, a Draft Report is issued to the relevant Director and Service Management for response on the factual accuracy and acceptance of the findings and recommendations, as appropriate; and a Final Report is then issued.

4 PROGRESS UPDATE

- 4.1 Internal Audit has carried out the following work in the period from 1 August to 27 October 2023 associated with the delivery of the Annual Plan 2023/24.
- 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:

- Revenues (Council Tax and NDR) – Self Catering
- Hawick Conservation Area Regeneration Scheme (CARS)
- Pupil Equity Fund (PEF) (*originally Benefits Assessments audit in Plan split into 2*)
- Refugee and Asylum Seekers Funding (*originally Homelessness in Plan*)

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
Full assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied, to support the achievement of objectives. Minor improvements might be required.
Substantial assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.
Moderate assurance	Whilst there is a system of governance, risk management and control in place, there are weaknesses in the system that leaves some risks not addressed, and there is evidence of non-compliance with some of the controls.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives.

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 2023/24 consists of the following:

Audit Area	Audit Stage
Cost of Living Crisis Support (<i>originally Benefits Assessments audit in Plan split into 2</i>)	Testing further information provided
Sales to Cash (S2C)	Testing nearly completed
Asset Management (Property) (<i>b/f from 2022/23</i>)	Specific utilities review nearly completed
Staff Retention (<i>originally Recruitment and Retention audit in Plan split into 2</i>)	Testing underway
Schools Financial and Business Administration	Testing underway
Scottish Government Community Led Local Development Fund (CLLD)	Testing underway
UK Government Shared Prosperity Fund	Testing underway
Capital Programme and Projects	Planning the Engagement

Changes to Internal Audit Planned Assurance Work

4.7 It was highlighted within the cover report for the Internal Audit Strategy and Annual Plan 2023/24 that "the Plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the Council will be brought to Council Management Team and the Audit Committee for approval."

4.8 The following minor amendments have been made to assurance audits in the Internal Audit Annual Plan 2023/24 to ensure each audit engagement reflects the specific risks and areas of assurance required by the relevant Directors and Service Managers consistent with the Council's objectives:

- UK Government Shared Prosperity Fund (*originally Economic Development Funded Programmes audit in Plan split into 2*)
- Scottish Government Community Led Local Development Fund (*originally Economic Development Funded Programmes audit in Plan split into 2*)

This demonstrates the increased emphasis on our agile approach to design risk-based audit engagements that determine the priorities of the Internal Audit activity in the Plan on a rolling basis throughout the year.

Internal Audit Consultancy and Other Work

4.9 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 / Digital Transformation Programme Boards, Information Governance Group, Social Work Programme Board, Sustainability Board, Digital Security Board).
- b) Continuous audit work as a 'critical friend' on the development of a revised Performance Management Framework for the Council led by the Corporate Performance & Improvement Team. Significant activity included the review of the service planning process and measures.

- c) Continuous audit work to assess the governance relating to organisations that constitute significant partnering arrangements from the Council's perspective. Preparing an Internal Audit Consultancy Report to outline findings and provide some suggestions for Management.
- d) Quarterly updates to Council Management Team on the status of in-progress Internal Audit recommendations to ensure senior management oversight of progress with their implementation as a way to demonstrate continuous improvement. The Follow-Up Review of In Progress Internal Audit Recommendations as at Q2 2023/24 is presented as a separate report to the Audit Committee this cycle.
- e) The Chief Officer Audit & Risk is the Chair of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), a member of the Chartered Institute of Internal Auditors (CIIA) Local Authority Forum, and a member of the Heads of Internal Audit and Risk UK Forum, which provide the opportunity to share good practice and to keep knowledge of new Internal Audit developments up to date. The virtual CIIA webinars in recent months covered the topics of 'Audit Committee', 'Risk in Focus 2024' and 'Global Internal Audit Standards'. Others in the Internal Audit team are members of relevant specialist practitioners' forums, including Data Analytics, Counter Fraud, and Computer Audit.
- f) SLACIAG invited Chairs and Vice Chairs from Scottish Council's and IJB's Audit Committees to a virtual learning and development session on 8 September 2023 delivered by Diana Melville, CIPFA Governance Advisor, on the publication 'Untapped Potential: Internal Audit'.
- g) The Chief Officer Audit & Risk facilitated the Chairs of Audit Committees (Integration Joint Board, Scottish Borders Council, and NHS Borders) meeting on 21 August 2023; an improvement action in the Audit Committee Annual Report 2022/23.
- h) Audit Scotland provided a presentation on 29 August 2023 covering the 'Role of External Audit in the Public Sector' to members of the Audit Committee to assist their knowledge and understanding.

Recommendations

4.10 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:

<p>High: Significant weakness in existing controls, leaving the Council or Service open to a very high risk of not achieving its strategic objectives or evidencing best value, 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 Director Assurance Statement on Internal Control and Governance.</p>
<p>Medium: Substantial risk of not achieving its strategic objectives or evidencing best value, requiring reasonably urgent action within three months of formally raising the issue.</p>
<p>Low: Moderate risk of not achieving its strategic objectives or evidencing best value, 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 the attention of Senior Management.</p>
<p>Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.</p>

4.11 The table below summarises the number of Internal Audit recommendations made during 2023/24:

	2023/24 Number of Recs
High	0
Medium	2
Low	0
Sub-total reported this period	2
Previously reported	8
Total	10
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

- a) During the development of the Internal Audit Annual Plan 2023/24 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 during discussions with the Corporate Risk Officer. The agreed Internal Audit recommendations are linked to relevant risks and risk registers in the Pentana system.
- 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.

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 has been consulted on this report at its meeting on 1 November 2023 to acknowledge its content, assurance and actions therein.

6.3 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report by email as required practice.

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: Appropriate Internal Audit files

Previous Minute Reference: Audit Committee 25 September 2023

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

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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Corporate Risk: CMT 014 Legislative Compliance  and CMT 033 Financial Sustainability </p> <p>Subject: Revenues (Council Tax & NDR) – Self-Catering</p> <p>No: 084/014</p> <p>Date issued: 13 October 2023 Draft; 23 October 2023 Final</p> <p>Level of Assurance: Full</p>	<p>The purpose of the review was to assess the application and implementation of changes in legislation affecting Council Tax and Non-Domestic Rates (NDR). This specific review covers changes in self-catering legislation.</p> <p>The legislation in respect of Self-catering properties has changed from 1 April 2022. To be classed as a non-domestic property and liable for non-domestic rates instead of Council Tax, a Self-catering property is required to provide evidence of 70 days of letting as well as 140 days of intention to let from 2022/23 onwards. If the property is not considered to be Self-catering, it will enter the Council Tax valuation list at an appropriate valuation band and will be liable for Council Tax. The legislation requires that the Council tax valuation list entry be made retrospectively.</p> <p>The following example of good practice was found:</p> <ul style="list-style-type: none"> As a way of raising customer awareness a flyer was attached to prior year’s Non-Domestic Rates (NDR) bills advising the change to self-catering units from 1 April 2022 <p>The Assessors team advise Customer Services on a weekly basis of any self-catering units where changes required between Council Tax and Non-Domestic Rates. These changes form part of Customer Services normal change process, with any process changes advised via e-mail to ensure a consistent approach across the team and procedure notes updated to reflect this.</p> <p>There is effective governance in place to ensure the Council conforms with legislative and regulatory requirements. There are robust processes in place to ensure Customer Services records are updated in alignment with Assessors records.</p> <p>Internal Audit are able to provide Full assurance. A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied, to support the achievement of objectives. Minor improvements were implemented to address discrepancies arising from reconciliations and to respond to customer queries at the appropriate time.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted its findings.

Page 41

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Corporate Risk: none (Management Request)</p> <p>Subject: Pupil Equity Fund</p> <p>No: 127/037</p> <p>Date issued: 29 September 2023 Draft; 13 October 2023 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the arrangements in place to administer the Pupil Equity Fund (PEF) and ensure that it is being utilised in line with the National Operational Guidance issued by the Scottish Government.</p> <p>Pupil Equity Funding (PEF) is additional funding allocated directly to schools to use education to improve outcomes for children and young people impacted by poverty. The Scottish Government has committed to this funding as part of the Scottish Attainment Challenge (SAC) programme up until 2025/26.</p> <p>Head Teachers have been provided with appropriate local guidance which supplements the Scottish Government's national guidance and have been given relevant training to effectively use PEF funding for correct purposes.</p> <p>Schools adhere to the Council's recruitment and procurement policies and procedures when recruiting staff or purchasing goods or services through PEF.</p> <p>Budgetary and financial controls are in place over PEF are robust with monthly budget monitoring reporting in place.</p> <p>Internal Audit are able to provide Substantial assurance. There is a generally sound system of governance. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.</p> <p>In addition to the Management actions that are underway, Internal Audit have made the following recommendations:</p> <ul style="list-style-type: none"> • All schools should be reminded to deliver their plans and publish their School Improvement reports within the agreed timescales, and non-compliance escalated as required to the Chief Education Officer for monitoring purposes. (Medium) • Top slicing of PEF funding to cover the costs associated with management, monitoring and reporting should cease for the academic year 2023/24 in accordance with PEF guidance issued by Scottish Government. (Medium) 	0	2	0	Management have confirmed the factual accuracy of the report, accepted its findings, and agreed to implement the recommendations

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Corporate Risk: none (HES Funder's audit requirement)</p> <p>Subject: Hawick Conservation Area Regeneration Scheme (CARS)</p> <p>No: 154/033</p> <p>Date issued: 27 September 2023 Draft; 04 October 2023 Final</p> <p>Level of Assurance: Substantial compliance with the scheme rules and the HES contract</p>	<p>The purpose of the review was to examine and evaluate compliance with the scheme rules and contract, including auditing requirements, specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 5 April 2019.</p> <p>Hawick Conservation Area Regeneration Scheme (CARS) Partnership Project between Historic Environment Scotland (HES), South of Scotland Enterprise (SOSE) and Scottish Borders Council (SBC) started in 2019/20. Its purpose is to undertake heritage and conservation based regeneration activities within Hawick town centre over a six year period from 2019 to 2025 (extended from original five year period in agreement with funding partners, due to the delays arising from the Covid pandemic and a slow post-launch take up of grants).</p> <p>This is achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training.</p> <p>The revenue project budget is £1.575m jointly funded by HES (£1.315m), SOSE (£60k) and SBC (£200k).</p> <p>Robust documented processes are in place which cover the key stages starting with an enquiry through to payment of the grant based upon evidence of completed work to payment. The management of the scheme is fundamentally sound and run substantially in accordance with the requirements of the contract, appropriate controls exist around segregation of duties, and authorisations were in operation.</p> <p>Budget monitoring reports are produced monthly which includes Hawick CARS. The Project Officer maintains a separate financial spreadsheet that records expenditure for grants on the basis of offers made to overcome the timing differences between grant offer and claim by the Grantees.</p> <p>Internal Audit are able to provide assurance of substantial compliance with the scheme rules and the HES contract.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of the audit report.</p> <p>The submission to Historic Environment Scotland to meet the reporting requirements, included the assurance conclusions from this Internal Audit report within an Accountant's Report and the Abstract Accounts 2022/23 for Hawick CARS.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Corporate Risk: none (Management Request for assurance on external funding)</p> <p>Subject: Refugee and Asylum Seekers Funding (originally Homelessness in Plan)</p> <p>No: 172/012</p> <p>Date issued: 12 October 2023 Draft; 18 October 2023 Final</p> <p>Level of Assurance: Full</p>	<p>The purpose of the audit was to review the controls in place to ensure efficient and effective use of Home Office Refugee Money and Asylum Distribution Money.</p> <p>The UK Government made available a tariff to local authorities in providing wrap around support to individuals and families helping rebuild their lives and fully integrate into communities. The funding was specifically for refugees and asylum seekers from Syria and Afghanistan, and the displaced people from Ukraine.</p> <p>Much work has been completed by various Services in the Council to welcome these people and their children, to the Scottish Borders. The support provided was both financial and assistance with housing, education, health care, banking, etc.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Staff reacted well to the changing eligibility criteria, ensuring payments could be made to those identified. • There was close dialogue with Scottish Government and Home Office colleagues. <p>Internal Audit are able to provide Full assurance. A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied, to support the achievement of objectives. Minor improvements were implemented to ensure data accuracy and 2nd line monitoring relating to the Ukrainian funding stream.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted its findings.

Page 44

INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2023/24

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2023, towards completing the approved Internal Audit Annual Plan 2023/24. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Internal Audit Annual Plan 2023/24 that was approved by the Audit Committee on 13 March 2023 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer Audit & Risk (the Chief Audit Executive (CAE)), to provide the statutory annual Internal Audit opinion regarding the adequacy and effectiveness of governance, risk management and internal controls within the Council.
- 1.3 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work, which indicates good progress. The programme of work for the six months from October 2023 to March 2024 based on the available resources indicates that the Internal Audit Annual Plan 2023/24 can be delivered in full.
- 1.4 Internal Audit assurance services are also provided to the Scottish Borders Council Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations. Separate Internal Audit plans and reports are presented to their respective Management and boards /committees for assurance purposes.
- 1.5 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit Committee:**
 - a) Notes the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2023/24; and**
 - b) Confirms that it is satisfied with the Performance of the Internal Audit service.**

3 BACKGROUND

- 3.1 The authority for Internal Audit to operate in Scottish Borders Council is contained in the Council's Local Code of Corporate Governance, and Financial Regulations. The Internal Audit Charter expands upon that framework, alongside the Internal Audit Strategy and Annual Plan 2023/24.
- 3.2 The Objectives of Internal Audit are set out in its Charter:
"As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.3 Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of governance, risk management and internal controls operating within the Council.
- 3.4 The Internal Audit Annual Plan 2023/24, approved by the Audit Committee on 13 March 2023, sets out the audit coverage for the year utilising available staff resources to enable the Chief Officer Audit & Risk (the Chief Audit Executive (CAE)), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of governance, risk management and internal controls operating within the Council.
- 3.5 Internal Audit assurance services are also provided to the Scottish Borders Council Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations. Separate Internal Audit plans and reports are presented to their respective Management and boards /committees for assurance purposes.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT ANNUAL PLAN 2023/24

- 4.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of Internal Audit resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 4.2 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the achievement of its programme of work. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, and those scheduled for the second half of the year are not shaded. Internal Audit has made good progress in the first half of the year towards delivering the approved Internal Audit Annual Plan 2023/24 to meet its objectives.
- 4.3 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery in an ever-increasing challenging environment.

5 COMPLETING THE INTERNAL AUDIT ANNUAL PLAN 2023/24

- 5.1 The Internal Audit staff resources comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor (vacant since retirement on 31 August 2023 though following a successful recruitment process a new appointment will commence on 27 November 2023), two Senior Internal Auditors (one is an interim contractor), and two Internal Auditors.
- 5.2 The Internal Audit programme of work for the six months from October 2023 to March 2024, based on maintaining the above staffing levels within this period, presently indicates that the revised Internal Audit Annual Plan 2023/24 can be delivered in full.
- 5.3 The Internal Audit work will continue to be reported to the Council Management Team and to the Audit Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.
- 5.4 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Council Management Team and to the Audit Committee within the Internal Audit Annual Assurance Report 2023/24, scheduled for April 2024, which will also provide the statutory audit opinion based on audit findings over the year.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

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

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

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

- 7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members. An internal self-assessment 2022/23 of Internal Audit practices against the Standards was carried out in February/March 2023. This identified some minor refinements relating to operational tools to ensure their efficiency and effectiveness and other housekeeping actions for inclusion in the QAIP. These were discussed with the whole team at an Away Day on 8 March 2023, and were implemented prior to commencing the delivery of the Internal Audit programme of work 2023/24. This ensure the consistency in the quality management systems that underpin the provision of Internal Audit assurance services to Scottish Borders Council, Scottish Borders Council Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board.
- 7.3 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The first EQA of SBC Internal Audit was carried out by Renfrewshire Council in October 2015 and the results reported to the Audit and Risk Committee in November 2015. The findings of the second EQA of SBC Internal Audit, completed by North Lanarkshire Council in early January 2021, were reported to the Audit and Scrutiny Committee on 15 February 2021. Both EQAs assessed the SBC Internal Audit function as 'fully conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards (consistent with the internal self-assessments).
- 7.4 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2023/24. The results and any associated improvement actions will continue to be reported to the Council Management Team and the Audit Committee within the Internal Audit Annual Assurance Report 2023/24. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.
- 7.5 The Global Internal Audit Standards are in the process of being updated. The consultation phase has concluded and the International Internal Audit Standards Board has completed its review of public comments. The expected timetable for publication is January 2024 with full implementation by early 2025. This timeline enables the sector-specific standards and guidelines to be developed, such as the Public Sector Internal Audit Standards (PSIAS). The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) has a sub-group covering this area to ensure that the peer review process and schedule for the EQAs is developed in alignment with any changes to the Global Internal Audit Standards and PSIAS.

8 IMPLICATIONS

8.1 Financial

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

There are staff resources available to achieve the Internal Audit Annual Plan 2023/24 and to meet the key objective of delivering an effective Internal Audit function and providing the statutory internal audit opinion on internal controls, governance and risk. The Chief Officer Audit & Risk and Principal Internal Auditor carry out budget monitoring of the Audit and Risk service on a monthly basis to manage service delivery within budget and discussions are held at least on a quarterly basis with Finance staff to address any budgetary control issues or other financial matters.

8.2 Risk and Mitigations

- a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".
- b) The PSIAS require Internal Audit to evaluate the efficacy of Risk Management arrangements and associated internal controls put in place by Management and provide independent assurance on the effectiveness of the Risk Management Strategy and activities as part of its assurance on the Council's Corporate Governance arrangements.
- c) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2023/24, at the start of each audit engagement, and during the programming of work to deliver the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- d) If Internal Audit staffing levels fall below that assumed for the remaining six-month period, there is the risk that the revised Annual Plan 2023/24 will not be delivered in full. This will be mitigated by way of people planning, scheduling of the internal audit programme of work, regularly monitoring progress, and taking action as necessary. This is to ensure that a sufficient range and breadth of assurance audit work will be carried out during 2023/24 to underpin the statutory audit opinion to Management and the Audit Committee on the adequacy and effectiveness of governance, risk management and internal controls operating within the Council.

8.3 Integrated Impact Assessment

- (a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).
- (b) The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

- (c) The Internal Audit Strategy for 2023/24 has been amended to include integrated impact assessment compliance into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services are operating as intended to demonstrate the Council is fulfilling its Equality Duty and Fairer Scotland Duty.

8.4 **Sustainable Development Goals**

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist during the preparation of the Internal Audit Charter, and the Internal Audit Strategy and Plan 2023/24. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

During the year 2023/24 the Internal Audit function has adopted a continuous audit approach, including observation of the Sustainability Board, to assess the Council's governance arrangements and progress with action plans to meet its climate change obligations and sustainable environmental programmes.

8.5 **Climate Change**

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

The Internal Audit Strategy for 2023/24 has been amended to include integrating climate change into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services that support climate change commitments, plans and programmes are operating as intended.

8.6 **Rural Proofing**

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

8.7 **Data Protection Impact Statement**

There are no personal data implications arising from the content in this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards.

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

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

9 **CONSULTATION**

- 9.1 The Council Management Team has been consulted on this report on 1 November 2023 to ensure their awareness and oversight of Internal Audit performance against Plan.
- 9.2 The Director - Finance and Procurement, Director – Corporate Governance (and Monitoring Officer), Director - People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report in line with required practice.

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: Appropriate Internal Audit files

Previous Minute Reference: Audit Committee 13 March 2023

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

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

This page is intentionally left blank

AUDIT	DAYS	COMMENTARY	STATUS
Corporate Governance			
Corporate Governance	35	Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with Local Code of Corporate Governance covering the corporate whole and Directorates/Services. Prepare an Annual Assurance Report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control.	Continuous audit approach to follow-up on implementation of actions on Areas of Improvement set out in the Annual Governance Statement 2022/23. Annual evaluation of compliance with and effectiveness of the Council's Local Code of Corporate Governance scheduled 4th Quarter. Internal Audit Annual Assurance Report 2023/24 will be presented to Audit Committee on 29 April 2024.
Information Governance	20	Continuous audit approach performing 'critical friend' role through the review of the Information Governance framework including roles and responsibilities for the different data controllers (including Assessor ERO), review policy development and implementation, assess compliance with the legislation, and provide annual assurance to the Senior Information Risk Owner (SIRO).	Continuous audit approach as Chief Officer Audit & Risk attends quarterly meetings of Information Governance Group and Senior Internal Auditor attends meetings of the Information Management Team. Assurance review of information governance framework scheduled 4th Quarter.
Performance Management (Framework)	25	Critically evaluate the revised Performance Management Framework and test a sample of performance indicators in Service Plans to validate their relevance, completeness and accuracy.	<i>(originally Performance Management in Plan split into 2)</i> PMF: Review underway which will conclude in 4th Qtr.
Performance Management (LGBF)	20	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for either Local Government Benchmarking Framework or Corporate Priorities Pls.	<i>(originally Performance Management in Plan split into 2)</i> LGBF: Draft report issued 9 August 2023. Final Report issued 24 August 2023. Executive Summary to Audit Committee 25 September 2023.
Corporate Transformation Programme	20	Review the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned.	Continuous audit approach as Chief Officer Audit & Risk attends Fit for 2024 and Digital Transformation Programme Board meetings. Assurance review of transformation governance scheduled 4th Quarter.
Staff Retention	10	Review of the approach to staff retention to ensure skills, knowledge and competency retained for service delivery to meet the Council's objectives.	<i>(originally Recruitment and Retention in Plan split into 2)</i> Staff Retention: Scheduled 3rd Quarter
Staff Recruitment	10	Review of the revised approach to staff recruitment processes in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.	<i>(originally Recruitment and Retention in Plan split into 2)</i> Recruitment: Scheduled 4th Quarter to allow streamlined process to be implemented.
Complaints (b/f from 2022/23)	10	Review and assess the new arrangements in place for complaints to ensure the implementation of the revised policy and procedures.	Draft report issued 29 June 2023. Final report issued 9 August 2023. Executive Summary reported to Audit Committee on 25 September 2023.
Partnering Arrangements	15	Assess the governance and strategic arrangements in place to ensure they are robust; roles and responsibilities of partners are clearly defined; and controls are in place to ensure resources are used effectively.	Prepared an Internal Audit Consultancy Report to outline findings and provide some suggestions for Management.
Resilience Planning	15	Review the approach to emergency and business continuity planning, including resilient communities, risk assessments, early warning systems, post incident reviews and lessons learned.	Draft report issued 10 July 2023. Final report issued 2 August 2023. Executive Summary reported to Audit Committee on 25 September 2023.
Health & Safety	10	The Council is complying with relevant Health and Safety (H&S) legislation, has a structured approach to H&S awareness, including use of the H&S Management system to ensure there are adequate and effective controls in place to manage health and safety risks.	Draft report issued 19 July 2023. Final report issued 7 August 2023. Executive Summary reported to Audit Committee on 25 September 2023.
	190		

AUDIT	DAYS	COMMENTARY	STATUS
-------	------	------------	--------

Financial Governance

Revenues (Council Tax and NDR) - Self-Catering	10	Assess the application and implementation of changes in legislation affecting Council Tax and Non Domestic Rates (NDR). This specific review covers changes in self-catering legislation.	Draft report issued 13 October 2023. Final report issued 23 October 2023. Executive Summary reported to Audit Committee on 13 November 2023.
Record to Report (R2R)	10	Assurance work on Record to Report processes, including controls within the core General Ledger and Management monitoring and reporting.	Scheduled 3rd Qtr
Sales to Cash (S2C)	15	Review the income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.	Scheduled 3rd Qtr
VAT	10	Review of the VAT treatment of supplies and services made by the Council to customers.	Scheduled 3rd Qtr
	45		

AUDIT	DAYS	COMMENTARY	STATUS
-------	------	------------	--------

ICT Governance

IT Environmental & General Controls	15	Review progress with the implementation of the Cyber Security Maturity Assessment improvement actions to ensure the Council is protected from cyber attacks.	Scheduled 3rd Qtr
	15		

AUDIT	DAYS	COMMENTARY	STATUS
Internal Controls			
Schools Financial and Business Administration Processes	45	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments including evaluation of the systems in place to set and monitor DSM budgets.	Scheduled 3rd Qtr
Cost of Living Crisis Support	15	Assess the adequacy of policies and operational processes in place to provide a range of financial support and advice to local residents linked to the cost of living crisis.	<i>(originally Benefits Assessments in Plan split into 2)</i> Initial audit work on governance and approval processes completed in Q2; testing on workstreams scheduled Q3&4
Pupil Equity Fund (PEF)	15	Assess the arrangements in place to administer the Pupil Equity Fund (PEF) and ensure that it is being utilised in line with the National Operational Guidance issued by the Scottish Government.	<i>(originally Benefits Assessments in Plan split into 2, and additional 15 days transferred from Consultancy)</i> Draft report issued 29 September 2023. Final report issued 13 October 2023. Executive Summary reported to Audit Committee on 13 November 2023.
Licensing	10	There is an adequate control environment for licensing, including that of the Licensing board.	Scheduled 4th Qtr
Looked After Children	10	Adequate controls are in place to ensure sound budgetary control and the demand on service delivery for Looked After Children.	Draft report issued 27 June 2023. Final report issued 13 July 2023. Executive Summary reported to Audit Committee on 25 September 2023.
Refugee and Asylum Seekers Funding	20	Review of controls in place to ensure efficient and effective use of Home Office Refugee Money and Asylum Distribution Money.	<i>(originally Homelessness in the Plan)</i> Draft report issued 12 October 2023. Final report issued 18 October 2023. Executive Summary reported to Audit Committee on 13 November 2023.
Biodiversity of the Scottish Borders	10	Progress on the implementation of the Scottish Borders Local Bio Diversity Action Plan 2018-2028 to ensure compliance with the Council's Bio Diversity duty under the Nature Conservation (Scotland) Act 2004.	<i>(originally Parks and Open Spaces in the Plan)</i> Draft report issued 31 July 2023. Final report issued 23 August 2023. Executive Summary reported to Audit Committee on 25 September 2023.
	125		

AUDIT	DAYS	COMMENTARY	STATUS
Asset Management			
Asset Management (Property) (b/f from 2022/23)	25	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.	Specific review of the controls over the consumption of utilities (energy and water consumption) completed in 2nd Qtr. Overarching review of property asset management framework scheduled 4th Qtr
Management of Capital Programme and Projects	25	There is adequate governance arrangements in place, including programme and project management, risk management, and financial management, to develop, oversee and deliver the capital programme and projects, and reporting arrangements are sound to provide elected members' awareness of the Council's capital expenditure, priorities and risks. Sample of significant capital investment projects over the lifespan of each project.	Scheduled 3rd Qtr
Flood Protection	15	There is a structured framework, including community partner engagement, for investment in flood protection schemes and there are adequate operational and financial controls in place for the effective response to flooding to meet agreed standards and to demonstrate efficient and effective use of resources.	Scheduled 3rd Qtr
	65		

AUDIT	DAYS	COMMENTARY	STATUS
-------	------	------------	--------

Legislative & Other Compliance

Hawick Conservation Area Regeneration Scheme (CARS)	10	Annual review as part of programme compliance and evaluation requirements of the external funders including audit requirements.	(extra 5 days transferred from VAT assurance audit) Draft report issued 27 September 2023. Final report issued 04 October 2023. Executive Summary reported to Audit Committee on 13 November 2023.
UK Government Shared Prosperity Fund	15	Annual audits of grant-funded programmes under the terms of Agreements to assess compliance with the requirements and relevant regulations.	Initial audit work on governance and approval processes completed in Q2; projects testing scheduled Q4 to allow time for implementation due to initial delays.
Scottish Government Community Led Local Development Fund	10	Annual audits of grant-funded programmes under the terms of Agreements to assess compliance with the requirements and relevant regulations.	Initial audit work on governance and approval processes completed in Q2; projects testing scheduled Q3.
Sustainable Environment - Climate Change	25	Review progress with the Climate Change Route Map Priority Actions to meet the Council's obligations regarding sustainable environmental programmes. Continuous audit approach performing 'critical friend' role through the review of policy development and implementation, including training and assurance and ensure compliance with legislation.	Continuous audit approach as Senior Internal Auditor attends meetings of the Sustainability Board. Assurance review scheduled 3rd Qtr to meet annual return timescales.
	60		

AUDIT	DAYS	COMMENTARY	STATUS
-------	------	------------	--------

Consultancy

Advice	5	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.	Ongoing.
Critical Friend Consultancy	90	In its 'critical friend' role provide: internal challenge and quality assurance on a sample of programmes and projects involving major change and systems implementation; provide independent challenge of the evidence to support improvement; and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.	(15 days transferred for additional PEF assurance audit) Ongoing provision of 'critical friend' internal challenge and assurance through engagement in various forums including Fit for 2024 / Digital Transformation Programme Boards, Information Governance Group, Social Work Programme Board, Sustainability Board.
	95		

AUDIT	DAYS	COMMENTARY	STATUS
-------	------	------------	--------

Other

Contingency	10	Carry out reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.	Management requests in first half of 2023/24 have been incorporated into scopes of planned assurance work.
Follow-Up	15	Monitor progress with implementation of Internal Audit recommendations to ensure that Management Actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance.	Quarterly updates to Council Management Team. Follow-Up Review of In Progress Internal Audit Recommendations scheduled 3rd Qtr. Follow up Review of Completed Internal Audit Recommendations scheduled 4th Qtr.
Counter Fraud arrangements	40	Provide intelligence via data sharing requests from Police Scotland, and oversee investigation by Services of data matches arising from the Cabinet Office / Audit Scotland-led National Fraud Initiative (NFI) exercise.	Data sharing requests from Police Scotland now administered by Customer and Advice Support Services. Ongoing oversight of NFI data matches and further data submissions in collaboration with Services. Specific testing of counter fraud controls incorporated into assurance work.
PSIAS Self-Assessment	10	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to CMT and the Audit Committee.	Scheduled 4th Qtr. Findings will be outlined in Internal Audit Annual Assurance Report 2023/24.
Audit Committee Self-Assessment	5	Provide assistance to Chair of the Audit Committee in undertaking a self-assessment of the committee against the CIPFA best practice guidance.	The Chair presented the Audit Committee Annual Report 2022/23 to Council on 25 May 2023. Schedule for Audit Committee Development Sessions 2023/24 was approved 10 May 2023; separate virtual development sessions in calendars. The 2023/24 self-assessment is scheduled 4th Qtr.
Integrity Group	5	Attend and provide support to the Integrity Group and other related groups.	Integrity Group meets quarterly.
Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards / Committees as relevant.	Ongoing
Administration of Audit Scotland Reports	2	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the relevant Committees.	Ongoing
Audit Planning for 2024/25	10	Develop and consult on proposed coverage within the Internal Audit Annual Plan 2024/25.	Scheduled 4th Qtr.
	107		

SBC Total	702
------------------	------------

AUDIT	DAYS	COMMENTARY	STATUS
-------	------	------------	--------

Non SBC

Scottish Borders Council Pension Fund	20	To be determined in consultation with Management and agreed by the Joint Pension Fund Committee and Board for the review of the adequacy of governance, risk management and internal controls of the pension fund.	SBC Pension Fund Internal Audit Annual Plan 2023/24 approved by Joint Pension Fund Board and Committee on 21 March 2023. Audit work ongoing. Reports presented to Pension Fund Board and Committee.
Scottish Borders Health and Social Care Integration Joint Board	45	To be determined in consultation with Management and agreed by the Scottish Borders Health and Social Care Integration Joint Board (IJB) Audit Committee for the review of the adequacy of the IJB's arrangements for risk management, governance and control of the delegated resources.	IJB Internal Audit Annual Plan 2023/24 approved by IJB Audit Committee on 20 March 2023. Audit work ongoing. Reports presented to IJB Audit Committee.
	65		

Overall Total	767
----------------------	------------

This page is intentionally left blank

PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of the report is to provide 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.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit Committee includes 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.

2 RECOMMENDATIONS

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

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Ideagen Risk (previously Pentana), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks, and evidence improvement.
- 3.4 The Remit of the Audit Committee includes 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. An update report on Progress with Implementation of Internal Audit Recommendations 2022/23 was presented to the Audit Committee on 12 December 2022. Furthermore, a Follow-Up Review of Completed Internal Audit Recommendations 2022/23 was presented to the Audit Committee on 13 March 2023.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit Committee.
- 3.6 The Audit Committee 25 November 2019 decision "Requested that the Corporate Management Team determine an escalation process to address those Internal Audit recommendations not completed within the agreed timescale". In response, quarterly update reports on progress with implementation of Internal Audit recommendations have been presented to the Council Management Team (CMT) to enhance the senior Management monitoring and oversight of progress. The Q1 2023/24 Progress Update report was presented to CMT on 2 August 2023 and this Q2 2023/24 Progress Update report was presented to CMT on 1 November 2023.

4 PROGRESS UPDATE

- 4.1 Internal Audit has utilised a more supportive approach to perform formal follow-up in liaison with Assigned Action Owners / Managers to ensure the position at Q2 2023/24 reflects a more accurate representation of the actual improvement activity undertaken by Management. The following table highlights the status as at 26 October 2023 of Internal Audit recommendations from current and previous years:

Year	Total	Implemented	Not Yet Due	Overdue
2021/22	32	21	11	0
2022/23	26	14	12	0
2023/24 to Oct	10	1	9	0

- 4.2 The enhanced Internal Audit follow-up approach has revealed continuous improvements being demonstrated, most notably a good level of completions and increased % progress within the past three months covering the majority of the Internal Audit recommendations made in previous years. This is a good position against a backdrop of the ongoing challenging operating environment for the Council during this period.
- 4.3 There are occasions when it is necessary to grant extra time to complete recommendations. Some Managers have proposed extensions to due dates which have been approved by Internal Audit based on the further work required to implement these recommendations in full, as highlighted in the Appendix. The Pentana Risk system has been updated accordingly.
- 4.4 Internal Audit recommendations that have been agreed with Management during the current year 2023/24 to date have been added to the Pentana system. This Progress update report reflects the ongoing nature of Internal Audit work and the associated improvements in governance, risk management and internal controls implemented by Management.
- 4.5 Further details on those Internal Audit recommendations that are not yet fully implemented are shown in Appendix 1.
- 4.6 Internal Audit will complete an annual audit in the fourth quarter of each year on a sample of Internal Audit actions that have been completed within the preceding calendar year. The purpose of this Follow-up activity will be to check the evidence that improvement action has been undertaken and to ensure that the new controls or governance had the desired effect on improving internal control and governance. The findings will be presented to the Council Management Team and then to the Audit Committee. This practice is to provide additional assurance on the evidence of improvement in internal controls, risk management and governance as part of its continuous improvement processes.
- 4.7 A further update on Management's progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2023/24 for Scottish Borders Council, which is scheduled for presentation to the Audit Committee in April 2023. The annual Internal Audit annual opinion will take account of the improvements in governance, risk management and internal controls that have been implemented by Management during the full year 2023/24.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

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 controls and governance.
- (c) The Internal Audit Strategy for 2023/24 has been amended to include integrated impact assessment compliance into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services are operating as intended to demonstrate the Council is fulfilling its Equality Duty and Fairer Scotland Duty.

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 during the preparation of the Internal Audit Charter, and the Internal Audit Strategy and Plan 2023/24. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

During the year 2023/24 the Internal Audit function has adopted a continuous audit approach, including observation of the Sustainability Board, to assess the Council's governance arrangements and progress with action plans to meet its climate change obligations and sustainable environmental programmes. Recommendations may arise from this work.

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.

The Internal Audit Strategy for 2023/24 has been amended to include integrating climate change into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services that support climate change commitments, plans and programmes are operating as intended. Recommendations may arise from this work.

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 Council Management Team has been consulted on this report on 1 November 2023 to ensure their awareness and oversight of the Progress made by relevant Management in implementing Internal Audit recommendations.

6.2 The Director - Finance and Procurement, Director – Corporate Governance (and Monitoring Officer), Director - People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report in line with required practice.

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: Appropriate Internal Audit files and Pentana system

Previous Minute Reference: Audit Committee 12 December 2022 and 13 March 2023

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

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

This page is intentionally left blank

Internal Audit Recommendations

Status Overdue and Not Yet Completed - 26 October 2023

Code	Title	Progress	Original Due Date	Current Due Date	Status	Priority	Managed By	Assigned To
AUDIT.159	(2021) Sustainable Environment – Provision of Information for SSN Submission	60%	31-Dec-22	31-Dec-23	In Progress	Medium	Director Infrastructure & Environment	Environmental Strategy Co-ordinator
AUDIT.160	(2021) Sustainable Environment – External Validation/Peer Review	75%	30-Jun-22	30-Nov-23	Check Progress	Medium	Director Infrastructure & Environment	Corporate Policy Advisor; Environmental Strategy Co-ordinator
AUDIT.162	(2021) Economic Development Industrial Property – balanced scorecard of KPIs	0%	30-Jun-23	31-Dec-23	In Progress	Medium	Director Infrastructure & Environment	Estates Strategy Officer
AUDIT.163	(2021) Roads Asset Management – RAMP	20%	31-Mar-24	31-Mar-24	In Progress	Medium	Director Infrastructure & Environment	Network Manager
AUDIT.164	(2021) Roads Asset Management – Financial Plans	25%	31-Mar-25	31-Mar-25	In Progress	Medium	Director Infrastructure & Environment	Network Manager
AUDIT.165	(2021) Roads Asset Management – Performance Monitoring	20%	31-Mar-26	31-Mar-26	In Progress	Medium	Director Infrastructure & Environment	Network Manager
AUDIT.166	(2021) Capital Investment – Asset Mgt Plans	5%	31-Dec-23	31-Dec-23	In Progress	Medium	Director Infrastructure & Environment	Director Infrastructure & Environment
AUDIT.168	(2021) Capital Investment – Risk Register	75%	30-Sep-22	31-Dec-23	In Progress	Medium	Director Infrastructure & Environment	Director Infrastructure & Environment
AUDIT.170	(2021) IT Asset Management – Strategy	90%	30-Nov-22	30-Nov-23	Check Progress	Medium	Director Strategic Commissioning & Partnerships	IT Client Manager
AUDIT.171	(2021) IT Asset Management – Business World	10%	31-May-23	29-Feb-24	In Progress	Low	Director Strategic Commissioning & Partnerships	IT Client Manager
AUDIT.172	(2021) IT Asset Management – Review of assets	80%	30-Nov-22	30-Nov-23	Check Progress	Low	Director Strategic Commissioning & Partnerships	IT Client Manager
AUDIT.179	(2022) Winter Service – Cost/Benefit Analysis	25%	30-Sep-23	31-May-24	In Progress	Low	Director Infrastructure & Environment	Chief Officer Roads
AUDIT.180	(2022) Contract Management – Live Borders	20%	31-Dec-22	31-Dec-23	In Progress	Medium	Director Resilient Communities	Director Resilient Communities
AUDIT.181	(2022) LGBF – Live Borders performance information	20%	31-Dec-22	31-Dec-23	In Progress	Low	Director Resilient Communities	Director Resilient Communities
AUDIT.185	(2022) Self Directed Support – Monitoring and Reporting	97%	31-Dec-22	31-Dec-23	In Progress	Medium	Director Social Work & Practice	Social Worker – Children & Families Social Work
AUDIT.188	(2022) Members Allowances – Develop Policy	75%	31-Mar-23	31-Oct-23	Check Progress	Low	Director Corporate Governance	Director Corporate Governance; Clerk to the Council
AUDIT.189	(2022) Members Allowances – Electronic Process		31-Aug-23	30-Nov-23	Check Progress	Low	Director Corporate Governance	HRSS Business Partner; Clerk to the Council
AUDIT.193	(2022) Passenger Transport – Procedures/Flowcharts	0%	30-Apr-24	30-Apr-24	In Progress	Low	Director Infrastructure & Environment	Principal Transport Officer; Team Leader School Transport
AUDIT.194	(2022) Passenger Transport – Internal Transport Policy	80%	30-Apr-24	30-Apr-24	In Progress	Low	Director Infrastructure & Environment	Principal Transport Officer; Procurement Business Partner
AUDIT.195	(2022) Passenger Transport – Recharges to Clients	45%	31-Aug-23	29-Feb-24	In Progress	Low	Director Infrastructure & Environment	Principal Transport Officer; Team Leader School Transport
AUDIT.198	(2022) Fleet Management – Performance KPIs & Benchmarking	50%	30-Apr-24	30-Apr-24	In Progress	Medium	Director Infrastructure & Environment	Fleet Manager
AUDIT.201	(2022) Protective Services – PWS – Improvement Plan	0%	30-Jun-23	31-Mar-24	In Progress	Medium	Director Corporate Governance	Principal Regulatory Services Officer
AUDIT.202	(2022) Protective Services – PWS – Charges and income	0%	31-Dec-23	31-Dec-23	In Progress	Medium	Director Corporate Governance	Principal Regulatory Services Officer
AUDIT.204	(2023) Looked After Children – C&FSW	0%	29-Feb-24	29-Feb-24	In Progress	Low	Chief Officer Children & Families Social Work	Children & Families Group Manager
AUDIT.205	(2023) Resilience Planning – Policy and Website Content	75%	31-Dec-23	31-Dec-23	In Progress	Low	Principal Emergency Planning Officer	Principal Emergency Planning Officer
AUDIT.206	(2023) Health and Safety – Quarterly Training Stats	10%	31-Oct-23	31-Oct-23	Check Progress	Medium	Director Corporate Governance	Protective Services Manager; Health & Safety Team Leader
AUDIT.207	(2023) Health and Safety – Overdue Actions Assure System	0%	31-Oct-23	31-Oct-23	Check Progress	Medium	Director Corporate Governance	Protective Services Manager; Health & Safety Team Leader
AUDIT.209	(2023) Complaints – Process Enhancements	0%	31-Oct-23	31-Oct-23	Check Progress	Low	Director Resilient Communities	Business Support Officer
AUDIT.210	(2023) Complaints – Mandatory Training Completion	0%	31-Oct-23	31-Oct-23	Check Progress	Low	Director Resilient Communities	Organisational Development/HR Manager
AUDIT.211	(2023) Biodiversity of the Scottish Borders	0%	23-Aug-24	31-Mar-25	In Progress	Low	Director Infrastructure & Environment	Flood & Coastal Management Technician; Lead Officer Heritage & Design
AUDIT.212	(2023) Pupil Equity Fund – Schools Plans and Reports publish	0%	31-Dec-23	31-Dec-23	In Progress	Medium	Director Education & Lifelong Learning	Chief Education Officer; Equity & Inclusion Lead Officer
AUDIT.213	(2023) Pupil Equity Fund – Administration Overhead	0%	30-Nov-23	30-Nov-23	Check Progress	Medium	Director Education & Lifelong Learning	Chief Education Officer; Finance Business Partner

Page 65

Comments:

9 previous actions have been completed since last report 11 July 2023:

(106 – (2019) Developer Contributions / Development Management Fees – Operating Procedures; 151 – (2021) Business Continuity – Resources & Training; 177 & 178 – (2022) Winter Service – Policy Evaluation; Performance Assessment; 190 – (2022) Schools Financial and Business Administration Processes – School Funds; 196 – (2022) Passenger Transport – Risk Register Review; 197 – (2022) Fleet Management – People & Succession Plans; 199 & 200 – (2022) Mental Health Services – Council Representation on MH Board; Performance & Management Information)

12 previous actions have shown an increase in % progress since last report 11 July 2023:

(163, 164 & 165 – (2021) Roads Asset Management – RAMP; Financial Plans; Performance Monitoring; 170, 171 & 172 – (2021) IT Asset Management: Strategy; Business World; Review of Assets; 179 (2022) Winter Service – Cost/Benefit Analysis; 188 & 189 – (2022) Members Allowances – Develop Policy; Electronic Process; 194 & 195 – (2022) Passenger Transport – Internal Transport Policy; Recharges to Clients; 198 – (2022) Fleet Management – Performance KPIs & Benchmarking)

13 previous actions have had an extension to due date granted by Internal Audit since last report 11 July 2023:

(162 – (2021) Economic Development Industrial Property – balanced scorecard of KPIs; 168 – Capital Investment: Risk Register; 170 & 171 – IT Asset Management: Strategy; Business World; 179 – (2022) Winter Service – Cost/Benefit Analysis; 180 – (2022) Contract Management: Live Borders Service Provision Agreement; 181 – (2022) LGBF: Live Borders – performance information; 185 – (2022) Self Directed Support: Monitoring and Reporting; 188 & 189 – (2022) Members Allowances: Develop Policy; Electronic Process; 195 – (2022) Passenger Transport – Recharges to Clients); 198 – (2022) Fleet Management – Performance KPIs & Benchmarking; 201 – (2022) Protective Services – PWS – Improvement Plan)

0 actions overdue – 7 actions overdue at last report 11 July 2023:

(none)

10 new actions since last report 11 July 2023 (1 of those completed: 208; 1 of those due date extension: 211)

(204 – Looked After Children: Early Intervention; 205 – Resilience Planning: Policy and Website Content; 206 – Health and Safety: 2nd line monitoring Quarterly Training Stats; 207 – Health and Safety: Overdue Actions Assure System; 208 – Health and Safety: Use 'Publish to Portal' functionality; 209 – Complaints: Process Enhancements; 210 – Complaints: Mandatory Training Completion; 211 – Biodiversity of the Scottish Borders: Targets & Milestones; 212 – Pupil Equity Fund: publish Schools Plans and Reports; 213 – Pupil Equity Fund: Recalculate Administration Overhead)

This page is intentionally left blank

COUNTER FRAUD CONTROLS ASSESSMENT 2023/24

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 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 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud, taking account of reducing resources, are associated with the Counter Fraud Strategy 2021-2024 that was approved by Council in December 2021.
- 1.3 The purpose of the Integrity Group is to improve the Council's resilience to fraud, theft, corruption, and crime. One way it can achieve that is self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place. This report refers to a national fraud report recently published by Audit Scotland, which sets out recommendations for public sector organisations.
- 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 2023/24 in response to fraud risks set out in Appendices 1 and 2; 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 and 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.
- 3.2 The Council's Counter Fraud Policy states the roles and responsibilities in tackling fraud; the primary responsibility for the prevention, detection and investigation of fraud rests with Management.
- 3.3 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud, taking account of reducing resources, are associated with the Counter Fraud Strategy 2021-2024 that was approved by Council in December 2021.
- 3.4 The Integrity Group is an officer forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice.
- 3.5 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.
- 3.6 Part of the Audit 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 Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.
- 3.8 The Audit Committee on 25 September 2023 considered the [Fraud and irregularity: Annual report 2022/23 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/2023/07/13/fraud-and-irregularity-annual-report-2022-23) (published 13 July 2023) that set out a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2022/23.
- 3.9 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 2023/24 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 2022/23' to the Integrity Group on 19 July 2023 to progress the Actions arising from this report (Appendix 1).
- 4.3 One of the actions arising from the Audit Scotland report 'Fraud and Irregularity Update 2022/23' 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.
- 4.4 The Integrity Group considered the full national 'Fraud and Irregularity Annual Report 2022/23' at its meeting on 4 September 2023. In response, it requested a counter fraud controls assessment to be carried out relating to the reported fraud cases by other public sector organisations. 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.
- 4.5 The Integrity Group has reviewed the status of Actions (set out in Appendix 1) and considered the consolidated 'Counter Fraud Controls Assessment 2023/24' (set out in Appendix 2), supporting the further actions required to enhance existing fraud risk controls.
- 4.6 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 2023/24 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, has been consulted on this report on 1 November 2023.

6.3 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of 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

Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit Committee 25 September 2023

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

Contact us at fraud@scotborders.gov.uk

The Recommendations arising from the Fraud and Irregularity 2022/23 report are set out in the following table, along with the status of the Action by the Integrity Group as at 20 October 2023:

<p>Public bodies should ensure effective counter-fraud arrangements are in place. These include:</p>	<p>Integrity Group Action – Status as at 20 October 2023</p>
<p>1) undertaking a fraud risk assessment to identify areas at risk</p>	<p>The Integrity Group meets quarterly and considers national reports on emerging risks.</p>
<p>2) having effective counter-fraud governance arrangements</p>	<p>A revised Counter Fraud Policy and Strategy 2021-2024 were approved by Council in December 2021.</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>3) having a counter-fraud strategy and regularly reviewing counter-fraud plans</p>	<p>The Council’s Counter Fraud Strategy and planned activity are monitored by the Integrity Group during quarterly meetings.</p> <p>Counter Fraud planned activity and outcomes are reported annually to Audit Committee.</p>
<p>4) regular assessment and review of internal controls</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 the control weaknesses identified in this report</p>	<p>This specific assessment has been completed by relevant officers across a range of Council Services in response to the publication of the Fraud and Irregularity Report 2022/23.</p> <p>The Counter Fraud Controls Assessment 2023/24 for Scottish Borders Council is set out in Appendix 2.</p>

The Counter Fraud Controls Assessment 2023/24 for Scottish Borders Council, as at 20 October 2023, is summarised in the following table. This is based on the fraud risks identified in the cases of fraud and other irregularities at public bodies in 2022/23 reported to their respective external auditors and summarised in the [Fraud and irregularity: Annual report 2022/23 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk) (published 13 July 2023).

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Contact
Case study one: Grant Payments	<p>Evidence is requested by applicants in support of their application.</p> <p>The evidence is reviewed and checked for any discrepancies e.g. evidence of amendments being made, splices in the document, overwriting) and checked to make sure it includes all relevant information i.e. legal name and address of business. This is checked against our records. Additional checks are done to make sure applicant is listed as having the business (typically on Companies House, website, social media, etc.).</p>		Customer Advice & Support Services Manager
Case study one: Grant Payments	<p>Evidence is requested by applicants in support of their application.</p> <p>The evidence is reviewed and checked for any discrepancies e.g. evidence of amendments being made, splices in the document, overwriting) and checked to make sure it includes all relevant information i.e. legal name and address of business. This is checked against our records. Additional checks are done to make sure applicant is listed as having the business (typically on Companies House, website, social media, etc.).</p> <p>Any amendments requested to payment details are requested from the applicant in writing, and evidence of the new account details need to be provided. This would typically be in the form of a bank statement including details of purchases etc to allow us to determine the authenticity of the document provided.</p>		Customer Advice & Support Services Manager
Case study three: Invalid Supplier	<p>Bank details are not amended on supplier accounts upon receipt of an email. A BACS form would be posted to the address registered in Business World for the supplier. If that form was not returned, we would independently search for a contact telephone number (via Google) for the supplier and telephone asking them to confirm their details. We would then log into RBS Bankline and carry out a Bankline check to verify the information provided.</p>		Procurement Business Partner

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Contact
Case study four: Procurement Card	Currently in place the purchase cards do not have the cash withdrawal functionality added to them so therefore cardholders or individuals cannot take physical cash out on these cards, also in place with cardholders we have approvers set up in RBS SDOL to provide the second level of approval. This is all detailed in the policy as well as the reviewers (cardholders) and approvers guidance documents.	The only area we may look to strengthen over time is more approvers for cover in areas to ensure that if individuals are off on annual leave or sick that this doesn't get missed as well as liaising with the bank on a regular basis to ensure technologies and processes are the most up to date.	Procurement Business Partner
Case study five: School Funds	<p>The School Fund records are administered in accordance with the appropriate financial procedures (School Fund: Guidelines to Headteachers on Accounting Procedures) as outlined in the Council's Financial Regulations.</p> <p>The revised Excel template for the maintenance of the School Fund has been used in full since the academic year (August to July) 2021/22, in response to an Internal Audit recommendation in 2020/21, with further improvement required on consistency of its use.</p> <p>The template includes Accountability Statements, Large Balance transfers, Pivot Tables, and Reconciliations to enable central oversight of all School Funds by SBC as the Education Authority.</p>	The scope of the planned Internal Audit review 2023/24 will assess progress on the prior year 2022/23 improvement action to ensure consistency in data recording across all schools in order to provide accuracy on the amount available to spend.	Business & Performance Manager
Case study six: Payroll	<p>Notification of change forms are submitted by managers for any change in contractual hours be these increases or decreases. These forms are then signed off by the HR Admin Team within HR Shared Services and a letter issued to the employee to confirm the change including the effective date of change. This is then passed to the Payroll Team within HR Shared Services to update the employee record within Business World. Once the update has been made this is peer checked as part of existing audit controls.</p> <p>On a monthly basis Forecasting reports are issued to budget holders which show the contractual hours for the employee and the associated spend at an individual employee level. Budget Holders are required to check this information and highlight any discrepancies.</p> <p>Then on an annual basis information is issued to all budget holders for checking as part of the Workforce Budget setting process.</p>	<p>There are already plans being developed for the introduction of manager induction programme to outline the tasks and responsibilities that a new manager has, this will be in the form of e-learning so compliance can be monitored.</p> <p>Additionally, reminders are issued to managers on their responsibilities to submit paperwork accurately and timely. Linked to this a list of HR/Payroll forms and their use will be issued and made available through the various communication channels.</p>	HR Shared Services Manager
Case study seven: Payroll	Same controls as outlined above through the use of Leavers Notification Forms.	As above.	HR Shared Services Manager

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Contact
Case study eight: Pensions	<p>The Pension Fund are signed up to the Tell Us Once notification system for the reporting of deaths. This control would ensure that pension payment was ended.</p> <p>When a pensioner passes away there are no further payments processed, with any balance of pension due held in a suspense account until confirmation of further beneficiary or estate had been received.</p> <p>Any request to change bank details for a deceased pensioner would not be applied to the pensioners record and further review carried out. This is not something that the Pension Fund have encountered.</p>	Additional control around the reporting of deaths of pensioners is being contracted with our Pension Administration Software provider, this will further enhance the checking of deceased pensioners.	HR Shared Services Manager
Case study nine: Theft	IT Hardware and peripheral stock is kept in a secure location with access to the keys, via number lock, limited to a small number of SBC staff and CGI colleagues. Due to restrictions on storage space, stock levels are kept to a minimum with regular stock checks undertaken to ensure that stock levels are as expected.		IT Client Manager

NATIONAL FRAUD INITIATIVE (NFI) 2022-2023 EXERCISE SELF-APPRAISAL CHECKLIST - REVIEW DATA MATCHES AND RECORDING OF OUTCOMES PHASES

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 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 (Review Data Matches and Recording of Outcomes Phases) 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 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 (Review Data Matches and Recording of Outcomes Phases) 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. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. The NFI 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. It helps to confirm that services and payments are provided to the correct people and businesses.
- 3.3 The Chief Officer Audit & Risk acts as the Council's Senior Responsible Officer for NFI and the Principal Internal Auditor (one of the Senior Internal Auditors 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, reviewing NFI data matches, and progressing and recording 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 is accountable to the Council Management Team (CMT) and has 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 13 February 2023 considered the report 'National Fraud Initiative 2022-23 Exercise Self-Appraisal Checklist' in accordance with good practice. 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.
- 3.7 The Audit Committee acknowledged the Integrity Group's self-assessment responses within the 'National Fraud Initiative 2022-23 Exercise Self-Appraisal Checklist' to Part A Q1-9 'For those charged with Governance' and Part B Q1-9 'For the NFI Key Contacts and Users' (relevant to the Planning phase) that set out the Council's planning, resourcing and initial approach to its participation in the NFI Exercise 2022-2023. The report stated that the Integrity Group would complete the remaining responses in the Self-Appraisal Checklist Q10-18 'Effective follow-up of matches' and Q19-21 'Recording and Reporting' at the appropriate phases of the NFI Exercise.

4 NATIONAL FRAUD INITIATIVE ACTIONS & SELF-APPRAISAL CHECKLIST (REVIEW DATA MATCHES AND RECORDING OF OUTCOMES PHASES)

- 4.1 The Chief Officer Audit & Risk, in the role as National Fraud Initiative Senior Responsible Officer (NFI SRO), facilitated the completion of the Self-Appraisal Checklist Part B Q10-18 'Effective follow-up of matches' on 18 August 2023 with those individuals from Services involved in the review of data matches. This ensured that the self-assessment took account of the Council's progress with the review of data matches phase of the NFI exercise and considered the staff resources that continue to be constrained due to other priorities.
- 4.2 The Integrity Group on 4 September 2023 reviewed the updated status of Actions in response to the NFI report 2022 Recommendations (set out in Appendix 1) and considered the content of the NFI Self-Appraisal Checklist (Part B Q10-18 set out in Appendix 2).
- 4.3 The Self-Appraisal Checklist Part B Q19-21 'Recording and Reporting' (set out in Appendix 2) was completed on 20 October 2023 by the NFI SRO, as the Council transitions from the review of data match phase to the recording and reporting phase. The lead officers on NFI within Audit Scotland and the Cabinet Office have been kept informed of the SBC approach to focus Services' limited staff resources on review of data matches during the year, and support and training has been requested on the NFI Portal. The Integrity Group will continue to monitor progress on a quarterly basis; next meeting is scheduled on 4 December 2023.
- 4.4 Assurances about the Council's participation in the NFI 2022-2023 Exercise can be taken from the updates and self-appraisal outcomes contained within this report. It should be noted that NFI is a small component of the Council's counter fraud framework which is implicit in the policies, procedures and controls (Financial, HR and Other) that are designed to prevent and detect fraud, theft and corruption across the range of Services.

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 2021-2024. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group, including their oversight of the Council's participation in the National Fraud Initiative (NFI) 2022-2023 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 this report content.

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 progress on 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, has been consulted at its meeting on 1 November 2023 on this Report and appended Action Plan and Self-Appraisal Checklist.

6.3 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of 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

Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit Committee 13 February 2023

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

Contact us at fraud@scotborders.gov.uk

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 20 October 2023:

Recommendations	Integrity Group Action – Status at 3 October 2022 and 20 October 2023
<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 @ 3 October 2022</u> Planning for and participation in the 2022/23 NFI exercise commenced on 14 September 2022 with a timetable and a meeting of relevant officers in Services. Management identified persons within the relevant Services for data submissions from November 2022 and investigation of data matches from January 2023 to improve participation in NFI.</p> <p><u>Progress @ 20 October 2023</u> All data submissions were uploaded to NFI Portal on time. Review of data matches progressing well despite resource constraints. Monitored quarterly by Integrity Group.</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 @ 3 October 2022</u> NFI Self-Appraisal Checklist 2022/23 (relevant section on Planning) was completed on 14 September 2022, considered by Integrity Group on 3 October 2022, and presented to Audit Committee on 13 February 2023.</p> <p><u>Progress @ 20 October 2023</u> NFI Self-Appraisal Checklist 2022/23 (relevant sections on Reviewing data matches and Recording Outcomes) completed on 18 August and 20 October 2023 respectively, considered by Integrity Group, and to be presented to Audit Committee on 13 November 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 @ 3 October 2022</u> 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> <p><u>Progress @20 October 2023</u> SBC's participation in the NFI 2022-2023 exercise was stated by external audit, Audit Scotland, in the 2022/23 Annual Audit Report for Scottish Borders Council that was considered by the Audit Committee on 25 September 2023.</p>

National Fraud Initiative (NFI) Self-Appraisal checklist 2022-2023 Exercise

Audited body: Scottish Borders Council

Officer responsible for NFI: Jill Stacey (Senior Responsible Owner), Katrina Culley (Key Contact)

Date completed: Planning phase (14/09/2022); Review data matches phase (18/08/2023); Recording outcomes phase (20/10/2023)

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. Appendix 1 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 (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>	
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 (modern.gov.co.uk) item 10 Agenda for Scottish Borders Council on Thursday, 16th December, 2021, 10.00 am - Scottish Borders Council (modern.gov.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 (moderngov.co.uk)</p> <p>2021/22 – A&SC 27 June 2022 Item No. 10 - Counter Fraud Annual Report 2021-22.pdf (moderngov.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 (moderngov.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 (moderngov.co.uk)</p>	

Part A: For those charge with Governance	Yes/no/partly	Comments	Is Action Required? Who by and When?
<p>7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?</p>	Yes	<p>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:</p> <p>“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).”</p>	
<p>8. Do we review how frauds and errors arose and use this information to improve our internal controls?</p>	Yes	As above	
<p>9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)?</p>	Yes	<p>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.</p> <p>2020/21 – A&SC 10 May 2021 Item No. 9 - Counter Fraud Annual Report 2020-21.pdf (moderngov.co.uk)</p> <p>2021/22 – A&SC 27 June 2022 Item No. 10 - Counter Fraud Annual Report 2021-22.pdf (moderngov.co.uk)</p>	

Part B: for the NFI key contacts and users	Yes/no/partly	Comments	Is Action Required? Who by and When?
Planning and Preparation			
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 (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>	
2. Are we investing sufficient resources in the NFI exercise?	Yes	Resources are sufficient and are proportionate to the level of fraud risk and efficacy of other internal controls and mitigating actions.	
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.	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>	
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?	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>	
5. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	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?	Yes	NFI Updates provided to Integrity Group meetings of 6 March 2023, 5 June 2023 and 4 September 2023 indicate that follow-up of matches activity is progressing in Services though is constrained by limited resources.	
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?	Partly	A sampling basis has been used across the range of matches (not only high-risk), based on knowledge and insights of staff within the Services that are following-up matches, and internal counter fraud practices that are in place i.e. initial sift of matches, then sample for follow-up.	
12. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes	Taking account of knowledge and insights of staff within the Services that are following-up matches, and the internal counter fraud practices that are in place.	
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?	Yes	If fraud were suspected, Managers would follow the standard fraud response process which includes engaging with HR to comply with procedures.	
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?	Yes	Regular discussions have taken place with new individuals involved in reviewing data matches within the Services, in light of limited staff resource availability, to perform an initial sift of matches, then select a sample for follow-up, and document the approach.	
16. Where the number of high-risk matches is very low, are we adequately considering the medium and low-risk matches before we cease our follow-up work?	Yes	A sampling basis has been used across the range of matches (not only high-risk), based on knowledge and insights of staff within the Services that are following-up matches, and internal counter fraud practices that are in place i.e. initial sift of matches, then sample for follow-up.	
17. Do we follow up matches which indicate a customer may be eligible for a benefit or service which they currently do not receive?	Yes	Routine procedures within Services check on customer eligibility for support.	
18. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes	Regular discussions are held with Services in light of staff resource constraints to ensure participation in NFI exercise is proportionate to risks for SBC.	
Recording and Reporting			
19. Are we recording outcomes properly in the secure website and keeping it up-to-date?	No	Recording outcomes phase not yet started; agreed approach in light of constrained staff resources. The final reporting deadlines in the timetable for the NFI 2022-23 Exercise is 31 March 2024.	
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 (to be encouraged)?	Yes	Training on the NFI portal is scheduled in October and November 2023, provided by Audit Scotland and Cabinet Office, for new individuals involved in the 2022-2023 Exercise (Key Contact, and those in Services reviewing data matches) to ensure they know 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 the NFI team about these outcomes?	Yes	Audit Scotland and Cabinet Office have been kept informed of the SBC approach to focus Services' limited staff resources on review of data matches during the year, then record outcomes once they received training in late 2023.	