

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTE of Meeting of the AUDIT AND
SCRUTINY COMMITTEE conducted
remotely by Microsoft Teams Live Event on
Tuesday, 23 June 2020 at 10.15 am

- Present:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, S. Scott and E. Thornton-Nicol. Audit Business: Ms H. Barnett and Mr M Middlemiss (from para 6) and from Audit Scotland: Mr A. Haseeb, Mr G. Samson and Ms G. Woolman.
- In Attendance:- Executive Director Finance & Regulatory, Chief Officer Audit & Risk, Clerk to the Council, Democratic Services Officer (F. Walling).

CHAIRMAN

The Chairman opened the meeting and welcomed Members of the Audit and Scrutiny Committee and members of the public to the Scottish Borders Council's open on-line meeting. The meeting was being held remotely in order to adhere to guidance on public meetings and social distancing currently in place, due to the COVID-19 pandemic.

1. **MINUTE.**
- 1.1 There had been circulated copies of the Minute of the Meeting held on 9 March 2020.

DECISION

APPROVED for signature by the Chairman.

- 1.2 With regard to paragraph 2 of the Minute, the Chief Officer Audit and Risk apologised that, due to current circumstances, the Action Tracker and update on the Best Value Action Plan were not presented but were planned to be available at the next meeting. With regard to the Internal Audit Strategy and Annual Plan 2020/21, summarised in paragraph 7 of the Minute, the Chief Officer advised that, due to the effects of the current pandemic, the Plan had been re-assessed in terms of potential changes i.e. add audits to cover new risks, defer low risk cyclical audits to a future year, and re-schedule medium risk audits to later in the year. This had been carried out in consultation with the Corporate Management Team and any significant changes would be submitted to the Committee for approval. The Chairman recognised the changes in priorities brought about by recent developments and agreed there should be more time given to follow up on actions and it was particularly important that there was follow up on the Best Value Audit.

**DECISION
NOTED.**

AUDIT BUSINESS

2. **INTERNAL AUDIT WORK TO MARCH 2020.**

There had been circulated copies of a report by the Chief Officer Audit and Risk which provided Members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements. The work Internal Audit had carried out during the period from 1 to 31 March 2020 was detailed in the report. During the period, a total of 3 final Internal Audit reports had been issued. There was a total of 14 recommendations made associated with the 3 reports (10 Medium Risk; 4 Low Risk). An Executive Summary of the final Internal Audit reports issued, including audit objective,

findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was detailed in Appendix 1 to the report. The Chief Officer gave thanks to the Internal Audit team for their efforts during the year to complete all planned assurance work, and to Management for their cooperation in finalising the three assurance reports during a very challenging time. The Chief Officer summarised the main points and recommendations within the 3 reports which related to: Contracting and Procurement; Business World ERP System Key Internal Controls; and SB Contracts. Members asked questions and received further clarification, in particular around Business World ERP System Key Internal Controls. They welcomed the good levels of assurances given. In response to a question as to whether there was capacity to monitor the audit actions post-COVID-19, the Chief Officer advised that she had agreed with Management a three-month extension to all audit actions, having taken into account risks from all open actions. Internal Auditors had a positive working relationship with Managers and, in recognising that the pandemic posed a significant risk to the whole organisation, would review recommendations with action owners.

DECISION

- (a) NOTED the final Internal Audit reports issued based on Internal Audit work carried out in the period from 1 to 31 March 2020 in accordance with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
- (b) AGREED to acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work, and the actions agreed by Management to improve internal controls and governance.**

3. RISK MANAGEMENT ANNUAL REPORT 2019/20.

3.1 With reference to paragraph 6 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Officer Audit and Risk providing an overview of Scottish Borders Council's responsibilities in respect of risk management and an update on the risk management activity during 2019/20. The report explained that during 2019/20 various Executive/Service Directors representing the diverse range of Council services made presentations to the Audit and Scrutiny Committee at each of their meetings on the strategic risks facing their respective Services. The style and content of the presentations changed from February 2020, following a request from the Chair of the Committee for the presentations to be more focused on how individual risks were managed and controlled. This new approach had proven to be successful, with Members providing positive feedback following presentations by the Executive Director, Finance and Regulatory, in February 2020 and the Chief Social Work and Public Protection Officer in March 2020. It was further explained that, following the outbreak of the coronavirus COVID-19 at the end of 2019, the Council began to proactively anticipate and identify risks to its essential services. Plans and mitigations were agreed and put in place so that when lockdown occurred on 23 March 2020 the Council continued to support the most vulnerable individuals and businesses within its communities. As Scotland and the Council moved into the next stage of the pandemic, risks would continue to be identified and managed to ensure that Services continued to be delivered in the safest way possible for all stakeholders.

3.2 In response to a question about reference to the use of Pentana, the Council's performance management system, being encouraged or enforced, the Corporate Risk Officer explained that improved Pentana system functionality had provided the opportunity for Service Managers to monitor their Business Plan Actions, Performance Indicators, Risks and Audit Actions through dedicated portals. The use of Pentana system for all Services would therefore ensure Managers had an overview of all Performance Indicators, actions and risks in one place. Next steps for 2020/21 included the review of the Risk Management training course. Given the exceptional circumstances as a consequence of the Coronavirus pandemic, the training may be delivered through an

online platform to ensure that Managers had the skills to continue to identify, monitor and control risks in line with the Corporate Risk Management Policy and Framework.

DECISION

AGREED to acknowledge satisfaction with the arrangements for managing risks at the Council to ensure their on-going effectiveness in support of the Council's risk management policy and strategy.

4. COUNTER FRAUD ANNUAL REPORT 2019/20.

With reference to paragraph 7 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Officer Audit and Risk providing details of the Council's counter fraud responsibilities and an update on the fraud prevention, detection and investigation activity during the year to 31 March 2020. The report explained that this was the second annual report on progress in relation to the revised Counter Fraud Policy statement and 3-year Counter Fraud Strategy approved by Council in 2018. Scottish Borders Council continued to participate in the National Fraud Initiative (NFI) which was a UK wide counter fraud exercise led by the Cabinet Office and Audit Scotland. It used 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. The outcomes of the Council's participation in the National Fraud Initiative (NFI) 2018/2019 were shown in a table within the report. In summary, total savings (overpayments and estimated savings) of £346,725 from fraud and error were identified in the NFI 2018/2019 exercise, as at 4 April 2020. In response to Members' questions, the Corporate Fraud and Compliance Officer gave further clarification about the information provided. He pointed out that the amount of Fraud and Error identified for Council Tax Discount was not an indication of increased levels of fraud. This was primarily due to Customer Services taking a canvas of Council Tax Discounts in February 2019 and the associated checking to determine whether these discounts were claimed legitimately. He also explained the difference between estimated savings and total savings (which included savings resulting from an ongoing liability) and that the calculation of these was driven by rules provided by Audit Scotland. In response to a question about plans for Fraud Awareness Training across the workforce and with reference to the relatively low number of sessions held in 2019/20, the Corporate Fraud and Compliance Officer explained that two types of training were planned. It was proposed to provide a short e-learning module which would be mandatory to all staff. Enhanced training would be targeted to staff in specific areas of relevance, such as finance, to refresh the message, highlight different types of fraud and enable staff to have confidence to identify fraud where this is occurring.

DECISION

AGREED:

(a) to NOTE:

(i) the counter fraud work undertaken in support of the Council's counter fraud policy and strategy; and

(ii) the outcomes of the counter fraud activity 2019/20.

(b) to request that officers note the importance placed by the Committee on the availability of Fraud Awareness Training for all staff.

5. INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2019/20.

With reference to paragraph 8 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Officer Audit & Risk presenting the Internal Audit Assurance Report for the year to 31 March 2020 which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy of the Council's overall control environment. The report explained that the Public Sector Internal Audit Standards

(PSIAS) required that the Chief Audit Executive (CAE), the Council's Chief Officer Audit and Risk, provide an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This was in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance. The Internal Audit Annual Assurance Report for 2019/20, attached as Appendix 1 to the report, included the annual Internal Audit opinion, provided details of the Internal Audit activity and performance during the year to fulfil its role, and summarised the outcomes of assessments of the Internal Audit service against the PSIAS. The Chief Officer Audit & Risk's opinion was that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council were operating satisfactorily. The Chief Officer highlighted the main points of the three elements of the report and gave further clarification where requested by Members. In terms of the Internal Audit Annual Plan 2019/20 Delivery, she explained that the level of Actual Audit days was higher than in the plan. This can be attributed to the unplanned secondment of a Graduate Finance Trainee for the second half of the year which more than offset the extraordinary staff sickness absence during the first half of the year. In response to a question about the ongoing Shared Internal Audit Services arrangement between Scottish Borders Council and Midlothian Council, the Chief Officer indicated that the benefits for both authorities appeared to be continuing. On the basis of these positive outcomes there was an opportunity for both authorities to explore other aspects in terms of shared services.

DECISION

- (a) **NOTED the Internal Audit Annual Assurance Report 2019/20 attached as Appendix 1 to the report.**
- (b) **AGREED that the Internal Audit Annual Assurance Report 2019/20 be published on the Council's website.**

MEMBER

The Chairman welcomed Mr Middlemiss to the meeting, who apologised for his unavoidable delay.

6. SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2019/20.

6.1 With reference to paragraph 9 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Executive presenting for approval the Annual Governance Statement that would be published in the Council's Statement of Accounts 2019/20. The Annual Governance Statement 2019/20 at Appendix 1, in compliance with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), provided details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion. In terms of overall corporate governance it was the Chief Executive's opinion that, although there were a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council were considered sound. The Executive Director Finance and Regulatory presented the report and summarised the Council's governance arrangements as these related to the seven core principles of good governance set out in the CIPFA/SOLACE Framework. He also highlighted the main areas where improvement in governance arrangements could be made, in particular with respect to implementing the Best Value Action Plan approved by Council in December 2019. With reference to the statement on the Community Planning Partnership the Chairman commented that although assurance was given of a joined-up nature between the Locality Plans, Improvement Plan and Community Partnership Plan, this should be a priority for attention in the year ahead to strengthen the linkage between the plans and improve partnership outcomes.

6.2 The Executive Director emphasised that the assurance opinion reflected the assessment of governance in place during normal operations in 2019/20 prior to the significant

coronavirus (COVID-19) outbreak in late March 2020. The latter clearly had an impact on business as usual in the delivery of services. The Council moved to Critical Service delivery on the evening of Monday 23 March 2020 following the announcements by the First Minister and Prime Minister on new coronavirus restrictions. This meant that as a Category 1 responder the Council's primary responsibilities were working with other resilience partners to protect life, especially the vulnerable, and to support businesses and the wider public; as such local authority workers were part of the essential response during the COVID-19 outbreak. In response to a question about openness and transparency in relation to reports approved using Emergency Powers, on a temporary basis during the COVID-19 outbreak, the Clerk to the Council confirmed that these reports would be published on the Council's website.

DECISION

AGREED to:-

- (a) note the details of the Annual Governance Statement 2019/20 as detailed in Appendix 1 to the report and that it reflected the risk environment and governance in place to achieve objectives;**
- (b) acknowledge the actions identified by Management to improve internal controls and governance arrangements; and**
- (b) give approval for publication of the Annual Governance Statement in the Council's Statement of Accounts 2019/20.**

ADJOURNEMENT

The meeting was adjourned at 11:44 am and re-convened at 11:50 am.

MEMBER

Councillor H. Scott left the meeting during the presentation and discussion below.

7. UNAUDITED REPORTS AND ACCOUNTS 2019/20 FOR SCOTTISH BORDERS COUNCIL.

- 7.1 With reference to paragraph 3 of the Minute of 25 June 2019, there had been circulated copies of a report and associated papers, by the Executive Director Finance and Regulatory, providing an opportunity to scrutinise the draft Scottish Borders Council and Group Annual Report and Accounts for the year ended 31 March 2020 prior to its submission to the External Auditors. It was explained that the draft Report and Accounts were still subject to Statutory Audit, which would commence in July as normal, but was likely to conclude later than usual due to competing audit demands as a result of the COVID-19 pandemic. It was estimated that following the Audit process, the final report and Accounts would be submitted to Council in November 2020. The Accounts summarised the financial transactions for the 2019/20 financial year and the balance sheet positions as at 31 March 2020 as set out in the Local Authority Accounts (Scotland) Regulations 2014. The draft Annual Accounts for 2019/20 were attached as Appendices to the report as follows: Annual Accounts for Scottish Borders Council; SBC Common Good Funds; SBC Welfare Trust; SBC Education Trust; SBC Community Enhancement Trust; Ormiston Trust for Institute Fund; SBC Charity Funds; Bridge Homes LLP; and Lowood Tweedbank Ltd. The accounts would be submitted to the External Auditors, Audit Scotland or KPMG as appropriate for full audit by 30 June 2020 and be available for public inspection on the Council's website for a 14 day period commencing 1 July 2020.
- 7.2 The Executive Director highlighted the main points from the Scottish Borders Council 2019/20 accounts by means of a visual presentation. Before doing so, he paid tribute to his staff for their achievement in preparing the accounts within the original timescale, despite the very difficult circumstances. The presentation provided the following headline figures: the Revenue Outturn for 2019/20 showed £1.538m underspend (0.58% of final approved budget); £13.263m Financial Plan Savings had been achieved, 70% of those on

a permanent basis; £8.412m of Earmarked balances from 2019/20 were carried into 2020/21 including £1.16m of DSM carry forward; Net Assets excluding Pension Fund liabilities had increased by £9.6m on the Balance Sheet; and there had been Capital Expenditure of £44.3m with a timing movement of £8.4m into 2020/21. The presentation gave an analysis of revenue expenditure by service and a graph detailing efficiency savings achieved over the past 5 years, categorised into permanent and temporary savings brought forward. With regard to SB Contracts in 2019/20 turnover had increased by £9m, or 57.2%, to £25.6m, with 20% of the total being generated by external works. In terms of the Council's reserves, the Useable Reserve as at 31 March 2020 equated to £30.1m. The presentation went on to refer to the Group accounts that were included with the papers. It was noted that with regard to the Scottish Borders Health and Social Care Partnership, the Integration Joint Board accounts had not been finalised for 2019/20, due to NHS resources being directed towards response to the COVID-19 outbreak. The group position reflected 2018/19 figures and would be updated once the accounts were available.

- 7.3 The Executive Director answered Members' questions on the accounts and provided further clarification where requested. Issues covered included: the pension liability and how this was calculated for the purposes of the accounts; the statement of indebtedness in relation to the IJB; the strategy in relation to reducing future demand for services; and the assessment and mitigation of risk of the current reduction in activity for SB Contracts. With regard to the percentage of total savings achieved on a permanent basis, Mr Robertson advised that whilst he would prefer to see a higher percentage of savings achieved permanently in line with the agreed financial plan, he recognised that in reality this was becoming tougher to achieve year on year, particularly taking into account the challenges now posed by COVID-19. In terms of the cumulative risk going forward due to the pandemic, he drew attention to a paper being presented to full Council on the response to the COVID-19 outbreak and the unprecedented financial challenge facing the Council. In this regard and in response to another question, he confirmed that the Council had useable reserves of £30.1m of which £7.8m were unallocated. Other reserves earmarked for specific purposes could also be used to support the response if this was considered prudent. The use of reserves would have to be repaid in future years. In terms of bad debts and the estimated ultimate collection rate for Council of 98.8% within the budget, the Executive Director explained that this was being monitored closely and accepted that this may have to be amended in the 2021/22 budget, also taking into account effect on cash flow. He confirmed that the Council would adopt a sympathetic approach to the collection of outstanding Council Tax and other debts and agree payment plans where appropriate. With regard to the average rate of interest of 4.67% paid on external debt, he explained that this was the average pooled rate on the Council's Loans Fund and that historic loans were re-financed at lower rates as the opportunities arose. The Chairman thanked the Executive Director and his team for their work behind the preparation of the accounts.

**DECISION
AGREED:-**

- (a) **to note the Draft Annual Report and Accounts 2019/20 for Scottish Borders Council and associated Group Accounts; and**
 - (b) **to support its submission for review by the External Auditors, Audit Scotland for Scottish Borders Council, Common Good and Trust Funds accounts, and to KPMG who continue to provide the external audit of the Council's subsidiary Bridge Homes.**
8. **UNAUDITED REPORT AND ACCOUNTS 2019/20 FOR SCOTTISH BORDERS COUNCIL PENSION FUND.**

With reference to paragraph 3.3 of the Minute of 25 June 2020, there had been circulated copies of a report by the Executive Director Finance and Regulatory, providing an

opportunity to scrutinise the Draft unaudited Annual Report and Accounts for the Pension Fund for 2019/20 tabled prior to their submission to the External Auditors. The draft unaudited Annual Report and Accounts, provided in Appendix 1 to the report, had been presented to the Joint Pension Fund Committee and the Pension Fund Board on 22 June 2020 for approval of submission to External Auditors and publication for inspection by the statutory deadline of 30 June 2020. Following the statutory Audit process, the final Report and Accounts would be submitted to the joint Committee and Board to review and recommend for approval. The Annual Report would also be made available for public inspection for a 3-week period commencing 30 June 2020. The Executive Director Finance and Regulatory presented the report and highlighted the main points. Due to COVID-19 and the subsequent market crash in March 2020, the Fund had seen, for the first time since 2008, negative performance of 1.7% against a benchmark of negative 1.9%. The rebalancing and diversification work which had been ongoing over the past 5 years had meant the full effect of the market crash had not been incurred by the Fund. The Fund had throughout 2019/20 continued with the processing of diversification away from equities and had increased its investments in infrastructure from £11.5m to £26.4m. The Pension Fund Committee and Board believed that a positive approach to Environmental, Social and Governance (ESG) issues could positively affect the performance of the Fund. Good progress had been made with the Fund's first annual responsible investment report being approved. This report showed that 99.8% of the Funds' assets were managed in compliance with United Nations Principles of Responsible Investment (UNPRI) signatories. The Fund continued to work with all its managers to ensure ESG was fully integrated into all their investment decisions. The Fund has also during the year become signatories to Climate Action 100+ initiative which was actively working to ensure the Paris Agreement climate change targets were met. In answer to a question with regard to the assessment and management of risk the Executive Director gave further clarification and confirmed that all identified actions were monitored quarterly with a full risk review undertaken annually.

DECISION

NOTED the Draft Unaudited Pension Fund Annual Report and Accounts for 2019/20

9. **AUDIT SCOTLAND: COVID-19 WHAT IT MEANS FOR PUBLIC AUDIT IN SCOTLAND.**

There had been circulated copies of a briefing by Audit Scotland, published in May 2020. Mr Haseeb (Audit Scotland) presented the paper and explained that a further briefing was currently being prepared. Audit Scotland recognised that public bodies were under exceptional pressure as they managed the impact of the pandemic. Guidance and deadlines for financial reporting had been amended to reflect this. The Audit for Scottish Borders Council would commence in July as planned, but instead of sign-off being by the end of September this would be extended to the 30 November. It would be some time before the impact of COVID-19 on public services and finances would be fully understood. The approach to audit would be flexible, pragmatic and consistent. Audit Scotland's work would need to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector. Within the financial audit, governance would be a key focus, including the new arrangements put in place by public bodies in response to COVID-19. Audit Scotland was committed to helping Parliament and the public understand how public money had been used during this crisis and ensure lessons were learned for the future. The complex and dynamic nature of the COVID-19 crisis meant that the work would need to be carried out in a phased approach. In the longer term, Audit Scotland would be working to identify lessons that could be learnt from the public sector's response; assessing the outcomes achieved from key Scottish Government spending and programmes related to COVID-19; and aligning work programme with the Scottish Government's work to rebuild Scotland's economy, remove inequality and advance wellbeing. The Chairman thanked the Audit Scotland representatives and the Committee's external members for their attendance.

DECISION

NOTED

SCRUTINY BUSINESS

10. PROPOSED SCRUTINY WORK PROGRAMME

There had been circulated copies of an extract from the Audit & Scrutiny Minute of 10 February 2020 regarding a report by the Service Director Customer and Communities, presenting an update on subjects for Scrutiny review as part of the future Scrutiny Work Programme. There were 14 subjects which were due to be taken forward and these were detailed in the Appendix to the extract. In light of the impact of COVID-19 the Chairman invited Members to reconsider the Scrutiny Work Programme being recommended for approval to Council and to re-look at the priority order of these subjects for review. In the ensuing discussion, Members agreed that it was appropriate to change the order on the list contained within the appendix and identified the priority subjects for review as: Child Poverty; Welfare Fund; Following the Public Pound – grant evaluations; Grass Cutting Regime & Biodiversity; Police Community Action Teams; and Recycling and Waste Policy. After hearing information from the Chief Officer Audit & Risk that both the Welfare Fund and Funding to Community Groups would be part of the 2020/21 Internal Audit Programme, Members agreed to leave all 14 subjects on the list but to ask the Clerk to the Council, in consultation with the Chief Officer Audit & Risk, to decide an appropriate order of consideration based on the priorities identified above. The Clerk added that Members could agree to include additional subjects on the list at a later date providing these were also agreed by Council.

DECISION

* AGREED

- (a) to amend the recommendation to Council in Paragraph 10.2(a) of the Minute of Audit & Scrutiny Committee of 10 February 2020:
- (b) to recommend to COUNCIL:
 - (i) approval of the subjects to be included in the Scrutiny Work Programme, as detailed in the Appendix to this Minute; and
 - (ii) given the response/recovery work required for COVID-19, and its impact on officer resources/time, that the order of the Scrutiny Work Programme is prioritised by the Audit & Scrutiny Committee.

The meeting concluded at 1.45 pm