

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE11 MAY 2023Report by Chief AuditorINTERNAL AUDIT PLAN PROGRESS REPORT 2022/23 QUARTER 4**PURPOSE OF REPORT**

1. To inform members of progress on Internal Audit's annual plan for 2022/23 as approved in June 2022.

BACKGROUND

2. The work performed by Internal Audit is based on a rolling 5-year strategic plan, which is revised annually to take into account changes in circumstances. This report is provided to allow members to monitor the activities of Internal Audit and to oversee actions taken by management in response to audit recommendations.

AUDIT PLAN 2022/23 - PROGRESS REPORT QUARTER 4

3. A copy of the annual audit plan for 2022/23 is shown in appendix 1. Seven audits relating to planned 2022/23 audit work were completed in quarter 4 as shown in appendix 2, two of which were for ERCLT. Appendix 3 gives detail of reports which were issued as part of the 2022/23 plan where the responses were received since the last progress report. Responses are deemed to be satisfactory if all recommendations are accepted for implementation by management or where any recommendation is not accepted but a satisfactory reason is given. The quarterly performance indicators for the section are shown in appendix 4.

4. One new request for assistance was dealt with using contingency time during the quarter. This related to a loss of goods and cash totalling approximately £600 from council premises. A report was issued detailing controls that needed to be improved to reduce risk of future losses. This was also reported to Police Scotland.

RECOMMENDATION

5. The Committee is asked to:

- (a) note Internal Audit's progress report for quarter 4 of 2022/23
- (b) confirm whether they wish any of the reports detailed in appendix 3 to be circulated to audit and scrutiny committee members or submitted to a future meeting for more detailed consideration.

Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067.

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EAST RENFREWSHIRE COUNCIL
Internal Audit Section
ANNUAL AUDIT PLAN FOR 2022/23 PROGRESS REPORT QUARTER 4

Department	Title	Audit Number	Original No. of days	Status
Chief Executives	Treasury Management	1	18	In progress
	Ordering and Certification	2	20	Complete
	VAT	3	12	In progress
Business Operations & Partnerships	Barrhead Payment Centre	4	11	Complete
	Creditors	5	24	In progress
	Debtors	6	10	In progress
	Housing Benefits/Universal Credit	7	30	In progress
	IT Asset Management	8	20	DELETE
	Scottish Welfare Fund	9	15	Complete
	Council tax – recovery and enforcement	10	18	Complete
Education	Early Learning and Childcare Payments	11	15	DELETE
	Schools cluster	12	32	DELETE
Environment	Clyde Valley Contract Group	13	13	Complete
	Grant certification	14	15	DELETE
	Stores	15	20	Complete
	City Deal	16	15	In progress
	Climate Change Report	17	5	Complete
	Energy and Fuel	18	20	DELETE
Housing	New Council Houses	19	24	In progress
HSCP	Direct Payments	20	20	Complete
	Barrhead Resource Centre	21	10	Complete
	IJB	22	15	
Trust	Culture and Leisure Limited Trust	23	20	Complete
Various	Contract 1 TBA	24	20	DELETE Note 1
	File Controls	25	12	Complete
	Fraud contingency	26	70	Complete
	General Contingency	27	30	Complete
	LG Benchmarking Framework	28	5	Complete
	Follow up	29	55	Complete
	Previous year audits	30	45	Complete
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DELETE – these audits were deleted from the 2022/23 plan (Audit and Scrutiny Committee 23/2/23)

Note 1 Audit work covering contractual issues has been covered under work done using contingency.

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INTERNAL AUDIT														
REPORTS AND MEMOS ISSUED 2022/23														
FILE REF	AUDIT NO.	SUBJECT	DEPARTMENT	DATE AUDIT STARTED	DATE REPORTMEMO SENT	DATE REPLY DUE	DATE REPLY REC	COMMENTS	Total	H	M	L	E	Not accepted
MB/1165/FM	29	Education Follow Up	Education	01/04/22	01/08/22	02/09/22 Ext 16/09/22	16/09/22	Satisfactory	2	0	0	2	-	0
MB/1166/NS	29	Environment Follow Up	Environment	07/04/22	27/6/22	29/7/22	09/08/22	Satisfactory	11	1	1	9	-	0
			BO&P				05/07/22	Satisfactory						
			HSCP				29/07/22	Satisfactory						
MB/1167/NS	13	Clyde Valley Contract Group	Environment	06/05/22	30/09/22	NR	NR	No response required. Email only	0	0	0	0	-	0
MB/1168/FM	29	HSCP FU	HSCP	12/05/22	30/09/22	04/11/22	4/11/22	Satisfactory	20	4	7	9	-	0
MB/1169/NS	15	Stores	Environment	24/05/22	27/09/22	28/10/22	19/14/22	Satisfactory	5	1	1	3	-	0
MB/1170/MB	28	Invoice Processing PI	BO&P	01/06/22	22/06/22	29/07/22	27/06/22	Satisfactory	1	-	-	1	-	0
MB/1171/EL	20	Direct Payments	HSCP	22/9/22	7/2/23	17/3/23	9/3/23		3	2	1	0	0	
MB/1172/FM	23	ERCLT	ERCLT	14/06/22										
MB/1173/NS	21	Barrhead Resource Centre	HSCP	22/06/22	30/09/22	04/11/22	4/11/22	Satisfactory	11	3	3	5	-	0
MB/1174/NS	25	File Controls	BO&P	24/06/22	13/01/23	17/02/23	8/2/23	Satisfactory	2	0	0	2	0	0
MB/1175/EL	29	Follow up of ICT Related Audits	BO&P	12/7/22	18/8/22	22/9/22	22/09/22	Satisfactory	10	3	2	5	-	0
			Environment				5/09/22	Satisfactory						
MB/1176/FM	19	New Council Houses	Environment	8/12/22										
MB/1177/MB	29	Follow up of BO&P audits	BO&P	7/7/22	22/09/22	28/10/22	1/11/22	Satisfactory	21	0	11	10	0	0
			Education				10/10/22	Satisfactory						
			HSCP				28/10/22	Satisfactory						
			Environment				19/10/22	Satisfactory						
			CE Office				21/11/22	Satisfactory						
MB/1178/NS	2	Ordering and Certification	CE Office	24/08/22	31/12/22	10/2/23	17/2/23	Satisfactory	12	0	8	4	0	0
			BO&P				8/2/23	Satisfactory						
			Education				1/3/23	Ext to 24/2/23						

INTERNAL AUDIT
REPORTS AND MEMOS ISSUED 2022/23

FILE REF	AUDIT NO.	SUBJECT	DEPARTMENT	DATE AUDIT STARTED	DATE REPORTMEMO SENT	DATE REPLY DUE	DATE REPLY REC	COMMENTS	Total	H	M	L	E	Not accepted
								Satisfactory						
			Environment				28/2/23	Satisfactory						
			HSCP				10/2/23	Satisfactory						
MB1179/NS	4	Barrhead Payment Centre	BO&P	09/09/22	21/11/22	23/12/22	21/12/22	Satisfactory	4	0	2	2	0	0
			CE Office				22/11/22	Satisfactory						
MB/1180/NS	9	Scottish Welfare Fund	BO&P	12/10/22	16/3/23	21/4/23	19/4/23	Satisfactory	3	0	0	3	0	0
MB/1181/NS	29	Follow up of Chief Execs audits	BO&P	18/10/22	23/01/23	24/2/23	21/2/23	Satisfactory	3	0	2	1	0	0
			Environment				15/3/23	Satisfactory						
MB/1182/NS	23	ERCLT	ERCLT	18/10/22										
MB/1183/NS	17	Climate Change Report	Environment	08/11/22	29/11/22	NR	NR	No response required	0	0	0	0	0	0
MB/1184/NS	10	Council Tax (Recovery & Enforcement)	BO&P	06/12/22	28/4/23	2/6/23								
MB/1185/FM	5	Creditors	BO&P	15/12/22										
MB/1186/FM	1	Treasury Management	CE Office	23/3/23										
MB/1187/NS	7	Housing Benefits	BO&P	06/01/23										
MB/1188/NS	6	Debtors Control	BO&P	01/03/23										
MB/1189/NS	16	City Deal	Environment	23/02/23										
MB1190/NS	3	VAT	CE Office	02/03/23										

Note: Audits issued in quarter are highlighted

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SUMMARY OF REPORTS ISSUED WHERE RESPONSES WERE RECEIVED SINCE LAST PROGRESS REPORT

APPENDIX 3**1. MB/1178/NS Ordering and Certification**

The audit covered the following key control areas:

- Only goods and services which are required for the Council's business are ordered
- Orders are placed only after costs have been ascertained
- Orders are placed only with authorised suppliers
- Invoices are passed for payment to the correct supplier and only for goods/services received
- Invoices are correctly coded for posting to the financial ledger.

Audit testing focussed on orders and invoices processed through Integra between 01 April and 31 August 2022.

Generally, the records were found to be held in an appropriate manner to allow all transactions to be verified. It was however noted that for 4 out of 15 orders taken, the goods had not been ordered via an approved supplier contract.

It is a requirement of the ordering system that orders show the reference of the contract/quick quote that is being used. A review of the 15 orders in the sample highlighted that this reference had only been shown in 4 cases.

It was also noted that a number of suppliers are appearing multiple times on the Creditor Masterfile which is overdue for a review.

A review of ledger codes used for items of expenditure indicated that there is a high use of miscellaneous codes for items where a more specific expense head is available. It was also noted that expense heads are being changed between order and invoice despite the expense head being suggested by the system.

Twelve recommendations were made, eight were classified as medium risk, and four as low risk. All recommendations were accepted by management. The medium risk recommendations are reproduced below with the departmental responses.

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
4.1.1	All Directors should instruct employees with responsibility for ordering to ensure that approved suppliers are being used.	Medium	Yes	BO&P Reminder will be issued to BOP, March 2023.	Louise Pringle	March 2023
				Environment A reminder will be issued to employees with a responsibility for ordering goods and services	Principal Business Intelligence Officer	31/3/23
				HSCP We will issue a reminder to all employees responsible for ordering	Governance and Systems Manager	28 February 2023
				Education Work with procurement and P2P group to explore areas/options available to better support staff centrally and in schools to gain a better understanding of the correct procurement route.	Barry Taylor (Business Manager)	Ongoing
				Correspondence will be issued to staff advising of the importance of using approved suppliers and more generally the different procurement routes they may need to follow.	Mary Docherty (Education Resources Senior Manager)	Apr-23

4.1.2	All departments should monitor spend against suppliers and where thresholds have been breached the appropriate contract route should be followed to ensure best value is being achieved.	Medium	Yes	BO&P Procurement attended DMT on 24 January 2023 to discuss new arrangements for contract management. BOP will implement March 2023	Louise Pringle	April 2023
				Environment A reminder will be issued to Managers, including Category Managers to monitor spend against suppliers and advise of appropriate action if thresholds are breached.	Principal Business Intelligence Officer	31/3/23
				HSCP Commissioning liaise with procurement regarding best value. Tolerance is managed in relation to social care agency spend to meet service requirements.	Commissioning, Planning and Performance Manager.	Ongoing
				Education Report on Education spend for financial year 21/22 has been provided by Procurement for the department to review. The capacity with the team and impact of further savings in both school based and central business support and budget teams will inevitably impact on the timescale for completion and ongoing monitoring.	Barry Taylor (Business Manager) Mary Docherty (Education Resources Senior Manager)	Ongoing
4.1.3	Departments should ensure that contracts are reviewed to ensure that they are not allowed to expire and liaise with Procurement to allow appropriate action to be taken.	Medium	Yes	BO&P Procurement attended DMT on 24 January 2023 to discuss new arrangements for contract management. BOP will implement March 2023	Louise Pringle	April 2023
				Environment A reminder will be issued to Managers, including Category Managers to ensure that appropriate contacts monitoring is implemented. An auto generated reminder is currently under development and will be issued from the corporate contact system to the relevant manager a reminder 20 weeks prior to contact expiry date. Until the auto reminder is live Central Business Support (CBS) will run a report on a monthly basis and send a reminder to the appropriate managers. In addition CBS will run and distribute to the DMT a quarterly contact status report.	Principal Business Intelligence Officer	31/3/23
				HSCP Commissioning have regular meetings with services and procurement to oversee contracts.	Commissioning, Planning and Performance Manager	Ongoing
				Education Liaise with procurement with regard to access to the online contract register. As currently school based staff do not have access to this information.	Barry Taylor (Business Manager) Mary Docherty (Education Resources Senior Manager) Corporate Procurement Team	Ongoing
4.2.1	The Creditors Masterfile should be reviewed to ensure that only current suppliers are "live" for selection by departments.	Medium	Yes	BO&P A review will be carried out by the team to determine any suppliers that have not been used since 2020 and will mark these for deletion.	Lorna Adams – Accounts Payable/ Receivable Manager	June 2023

4.2.2	The review should include a check on suppliers with multiple reference to determine if there is a legitimate reason for this.	Medium	Yes	BO&P A review will be carried out by the team to determine any suppliers with multiple references and either mark these for deletion or cross reference if multiple references are required.	Lorna Adams – Accounts Payable/ Receivable Manager	June 2023
4.6.1	The Chief Procurement Officer should ensure that the requirement for an order to be raised for all purchases prior to the invoice being received is addressed at the new Super User meeting and that this instruction should be cascaded to all employees responsible for ordering.	Medium	Yes	CE Office The Chief Procurement Officer will remind employees that a PO must be issued prior to invoice in the next P2P Newsletter. In addition to this it will be highlighted at the next Super User meeting and a report will be run monthly to monitor this and where there is no acceptable reason or where there is repeat offence the relevant Director will be advised.	Debbie Hill	28 February 2023 P2P Newsletter. Super User Meetings for 2023 still to be arranged but this reminder will be included. Monthly report will be run. First report will be analysed February 2023 looking a previous month.
4.7.1	The Finance Business Partners should ensure that all officers responsible for allocation of spend with the department are aware of the need to accurately post expenditure to the most appropriate expense head.	Medium	Yes	CE Office FBPs will be asked to ensure all managers are aware of need for accurate coding	Head of Accountancy	31/3/23
4.7.2	The use of miscellaneous codes should be restricted and only used where a more specific expense head is unavailable.	Medium	Yes	CE Office FBPs will be asked to remind managers of need to use specific codes where possible, however restricting codes will require development work via Business Systems & Processes team so will be subject to prioritisation against other system amendments.	Head of Accountancy D Hill/G Darbyshire	31/3/23 Dependent on BSP priorities

2. MB/1180/NS Scottish Welfare Fund

The budget for 2022/23 allocated £414k to cover both Community Care and Crisis Grants. This was split £372,300 for Community Care and £42,000 for Crisis Grant payments.

The main risks associated with this area are that if the correct checks are not completed then grants could be awarded inappropriately to applicants who do not meet the criteria for grants to be awarded or are made to fictitious applicants. There is also the risk that without appropriate monitoring, the amount awarded to the Council by the Scottish Government could be spent before the end of the financial year for which the award has been granted to cover.

The scope of the audit covered the following control objectives:

- Guidance from Scottish Government is available and followed

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- Council guidance and procedures notes are available and implemented
- All community care and crisis grants are supported by a completed application form
- Community care and crisis grants are processed timeously
- Appropriate checks and monitoring are carried out in processing and awarding community care and crisis grants
- Grants are only approved in accordance with Scottish Government criteria and appropriate records are held in evidence of refusal
- Adequate controls are in place over the use of Allpay cards
- Data returns to the Scottish Government are accurate and timeous.

The audit testing carried out at both locations focussed on the applications approved and paid during the period 1 January 2022 to 31 August 2022.

The sample of grants taken showed that generally the target timescales are being met and there is an appropriate audit trail in place to support the amounts awarded. However, it was noted that in the sample of 20 Community Care Grants only 6 were paid within the 15 day target. It is recognised that the number of applications being received during the sample period was high and that both Crisis and Self Isolation applications took priority and this was also at a time of reduced staff within the team.

The Team Leader also confirmed that there was a delay in implementing the 2022/23 daily amounts.

Three recommendations were made, all were classified as low risk and were accepted by management for implementation.

3. **MB/1181/NS Chief Executives Office Follow Up**

A full copy of this report and the responses has been circulated to Audit and Scrutiny Committee Members.

A total of 12 recommendations were made in the two reports being followed up. Follow-up checks carried out during the audit showed that efforts had been made to implement most of the recommendations, with 3 recommendations still outstanding and a further recommendation relating to procurement which has been included in the recently issued Ordering and Certification audit report.

All recommendations were accepted by management for implementation.

4. **Extracts from audit report prepared for ERCLT**

A report was prepared and issued to ERCLT which contained eight actions for East Renfrewshire Council to implement as provider of the payroll system to ERCLT. Two of these recommendations were classified as high risk, two as medium risk and four as low risk. On the basis that the same system is used for both the Council and ERCLT, the medium and high risk recommendations are reproduced below with the departmental responses.

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
4.3.2	Invoices issued in relation to payroll overpayments relating to ERCLT employees must be raised in the ERCLT financial ledger.	Medium	Yes	A communication has been issued to the payroll team so this action is complete.	Kath McCormack	Complete

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
4.3.3	All monies recovered by debtor account by the Council in relation to ERCLT employees should be reimbursed to ERCLT.	Medium	Yes	A list of ERCLT debts will be reviewed with debtors and accountancy to identify money to be reimbursed.	Kath McCormack	31/3/2023
4.5.2	The Itrent mapping tables must be corrected to ensure that relevant expense heads are used for posting payroll costs correctly to the financial ledger for instructor and casual posts within ERCLT	High	Yes	Will ask for this to be prioritised as part of the system backlog work.	Kath McCormack	31/3/2023
4.6.1	ERCLT management should be advised of the amounts of underpaid employee and employer NI and how this will be rectified.	High	Yes	We have implemented the process to rectify, and a report with underpayments for ERCLT employees will be provided.	Kath McCormack	31/3/2023

5. CC119MB Report on External Wall Insulation and Roofing Contract

This report was issued following an investigation carried out using general contingency budget. On 25 October 2022, the Chief Executive contacted Internal Audit to notify concerns over significant overspend on the External Wall Insulation and Roofing Contract. Audit agreed to carry out an initial investigation and analysis of the information provided to them. At that point it was thought the overspend was in the region of £620k against a contract value of £1.8 million. As at 17 January 2023, the overspend is £217k with total gross value of certified spend of £2 million. There was also concern that contract standing orders had not been complied with.

The scope of the audit investigation included reviewing the following areas:

- Reporting of variations and compliance with Contract Standing Orders
- Valuation certificates and the supporting documentation
- Financial monitoring of the contract

The contract was lead by PATS on behalf of the client (Housing) to enable external wall insulation and roofing works to be carried out on a number of council owned properties. A list of 126 properties was included in the tender pack.

A new standard PAS 2035 for retrofitting dwellings for improved energy efficiency was published on 27 January 2022 following a public consultation which started in August 2021 and ended in November 2021. The contract was awarded in December 2021. The tender documentation included references to PAS 2035 additions. It should be noted that at the point of awarding the contract, it was known that compliance with PAS 2035 would likely be more onerous and costly to implement than previous similar contracts.

Key points noted in this report are as follows:

- Breach of Contract Standing Orders
- Inadequate financial monitoring of the contract
- Unrealistic quantities used in tender document
- Key items omitted from tender document resulting in variations

Whilst there is scope for improvement in a number of areas relating to the management of this contract, PATS have already acknowledged some of these and have started taking steps to improve future tenders.

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Thirteen recommendations were made, seven were classified as high risk, four as medium risk and two as low risk. All recommendation were accepted by management for implementation. The high and medium recommendations with the management responses are reproduced below.

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
5.1.1	A report should be submitted to Cabinet as soon as possible advising of the breach in contract standing orders and requesting that the variation can be approved retrospectively.	High	Yes	Report to be submitted to 11 May 2023 Cabinet.	Phil Daws/Jim Murray	11 May 23
5.1.2	It is essential that senior management are informed immediately of any concerns regarding contracts so that adequate monitoring of the situation is put in place and appropriate remedial action can be taken promptly if required.	High	Yes	Written management reports will be provided to the Head of Service at the end of each financial period.	Alan Hook	April 2023
5.2.1	If a bill of quantities based contract is to be used, realistic quantities must be entered in the bid documentation as this is a key element of the tender evaluation process and unrealistic quantities could impact on which contractor is selected.	High	Yes	When using a bill of quantities, realistic quantities will be used for the tender evaluation process.	Alan Hook	April 2023
5.3.1	Bidders should be provided with a clear indication of which properties are to be included within the contract or in the absence of this, details of numbers and types of property expected to be completed.	High	Yes	All clients will agree the list of properties to be included in the contract	Alan Hook	April 2023
5.3.2	Tender documents must be accurate and provide realistic information for tenderers and time pressures must not allow this requirement to be over-ridden.	High	Yes	Written management reports will highlight the required project length and completion time. Conversations will take place with clients to ensure timescales are realistic.	Jim Murray	April 2023
5.4.1	Regular monitoring of contract spend against budget should be carried out to keep client department fully informed and to ensure that prompt appropriate action is taken to identify potential overspends and prevent them occurring.	High	Yes	Written management reports will be provided to the Head of Service at the end of each financial period.	Jim Murray	April 2023
5.6.1	All tender documents should be reviewed and evidenced as such to ensure that all expected items are included within the bill of quantities to avoid unnecessary contract variations.	High	Yes	Tender documents will be reviewed prior to tendering by a person not involved in the drawing up of the tender documentation.	Jim Murray	April 2023
5.6.2	All variations in future contracts should be supported by formal Instructions from the Council which are available within a reasonable timescale of the work being carried out.	Medium	Yes		Jim Murray	Complete

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
5.7.1	PATS should be able to demonstrate that the quantities certified at each stage of valuation are reasonable and accurate.	Medium	Yes		Jim Murray	Complete
5.8.1	In future EWI contracts the retrofit roles associated with PAS2035 should be tendered separately from the works contract	Medium	Yes	The next EWI contract will use the SXL contract.	Jim Murray	Complete
5.9.1	The Scotland Excel contract should be considered for use for future EWI, roof and render works.	Medium	Yes	SXL will be considered in the future.	Jim Murray	Complete

Risk Ratings for Recommendations	
High	<ul style="list-style-type: none"> • Key controls absent, not being operated as designed or could be improved and could impact on the organisation as a whole. • Corrective action must be taken and should start immediately.
Medium	<ul style="list-style-type: none"> • There are areas of control weakness which may be individually significant controls but unlikely to affect the organisation as a whole. • Corrective action should be taken within a reasonable timescale.
Low	<ul style="list-style-type: none"> • Area is generally well controlled or minor control improvements needed. • Lower level controls absent, not being operated as designed or could be improved

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EAST RENFREWSHIRE COUNCIL
Internal Audit Section

QUARTERLY PERFORMANCE INDICATORS

<u>Internal Audit Indicators reported Quarterly</u>	Target (where applicable)	Quarter 4 Actual 2022/23	Quarter 4 Cumulative 2022/23
2. Audit Coverage.			
2.2 Actual direct audit days as a percentage of total days available	75%	75%	78%
2.3 Number of requests for assistance/queries raised by departments outwith planned audit work.	-	1	8
2.4 Percentage of planned contingency time used. (Days available exclude public holidays, annual leave and sickness absence)	<100%	22.9%	47.0%
5. Issue of Reports.			
5.1 Number of audit reports issued per quarter. (Note 3)	-	7	19
5.2 Ave. time in weeks from start of fieldwork to issue of report. (Note 1)	12 weeks	21.0 wks	15.3 wks
5.3 Ave. time taken to issue report (working days). (Note 2)	10 working days	17.6 days	11.6 days

Notes

1. Average weeks calculated as working days divided by 5. This is calculated excluding ERCLT audits.
2. Working days excludes weekends, public holidays, annual leave and sickness absence. This is calculated excluding ERCLT audits.
3. This includes two audits carried out for ERCLT.

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