

EAST RENFREWSHIRE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****26 September 2023****Report by Chief Auditor****INTERNAL AUDIT ANNUAL REPORT 2022/23****PURPOSE OF REPORT**

1. To submit to Members an annual report on the activities of internal audit during 2022/23 and to provide an independent audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control systems based on work undertaken in 2022/23.

BACKGROUND

2. The internal audit service is an autonomous unit within the Chief Executive's Office. The service objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of the council's resources. Independence is achieved through the organisational status of internal audit and the objectivity of internal auditors. The council's financial regulations require that an annual report containing an assurance statement and summarising internal audit's activities during the year is submitted to the Audit and Scrutiny Committee.

ANNUAL REPORT 2022/23

3. The 2022/23 strategic audit plan was approved by the Audit and Scrutiny Committee in June 2022. Due to further reduced staff resources, some audits in the plan were not completed but priority was given to the audits which would give most assurance that internal controls continued to operate satisfactorily. The attached annual report (Appendix 1) summarises the audit work carried out during the year. The internal audit annual statement of assurance is contained within appendix A of the report. This concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the council's governance, risk management and internal control systems in the year to 31 March 2023 except for compliance with contract standing orders. Concerns over the accuracy of some payroll system calculations is also for noting only as this is unlikely to be material to the Council's year end accounts for 2022/23.

RECOMMENDATION

4. The Committee is asked to note the annual statement of assurance on the adequacy of governance, risk management and internal control systems and submit it to the Council.

5. The Committee is asked to note the contents of internal audit's annual report 2022/23.

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

M Blair, Chief Auditor
8 September 2023

BLANK PAGE

APPENDIX 1

INTERNAL AUDIT ANNUAL REPORT 2022/23

CONTENTS	Page No
1. Introduction	1
2. Internal Control Framework	1
3. Achievement of Annual Audit Plan	2
4. Summary of Audit Activities 2022/23	3
5. Compliance with Public Sector Internal Audit Standards (PSIAS)	4
6. Internal Audit Performance Indicators	4
7. Annual Internal Audit Opinion	5
8. Conclusion	6
Appendices	
A Internal Audit Annual Statement of Assurance for 2022/23	7-8
B Internal Audit Performance Indicators 2022/23	9
C Achievement of Annual Audit Plan for 2022/23	10
D New Build Houses summary recommendations	11-13

Chief Auditor
8 September 2023



BLANK PAGE

INTERNAL AUDIT ANNUAL REPORT 2022/23**1. INTRODUCTION**

- 1.1 The responsibilities and duties of Internal Audit are summarised in the Council's Financial Regulations which state:

'The primary role of Internal Audit is to provide assurance to the Council on the adequacy of its control environment. Internal Audit will carry out independent examinations of financial and related systems of the Council to ensure the interests of the Council are protected.'

- 1.2 Internal Audit's purpose, authority and responsibilities are set out in more detail in the Audit Charter.
- 1.3 Internal Audit activity during the year was based on the planned work contained in the Annual Audit Plan initially approved by the Audit and Scrutiny Committee in June 2022. The Annual Plan was initially derived from the 5 year rolling Strategic Audit Plan which is compiled following a risk based internal audit needs assessment and following consultation with members of the Corporate Management Team, External Audit and elected members.
- 1.4 There are five established posts within the audit service (4.7FTE) of which four employees (3.7 FTE) will hold a relevant professional qualification. There were two vacant posts at the year end.
- 1.5 The service operates in compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.
- 1.6 The assistance afforded by council staff to Audit during the course of work carried out in 2022/23 is gratefully acknowledged and senior management and elected members are thanked for the due regard given to the work of internal audit.

2. INTERNAL CONTROL FRAMEWORK

- 2.1 In order to ensure the proper conduct of its business, the Council has a responsibility to develop and implement systems of internal control. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective controls and it remains primarily the responsibility of line management to ensure that internal controls are in place and are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedures. Such systems of internal control can provide only reasonable and not absolute assurance against loss.
- 2.2 As part of its Standing Orders and in order for the business of the council to be dealt with in an efficient manner, the council has in place both a Scheme of Administration and Scheme of Delegated Functions. The former indicates the business to be dealt with by the various bodies of the council, whilst the latter gives details of the authority delegated to officers by the council. In addition to this, a comprehensive set of approved Financial Regulations (last reviewed June 2023) are in place, which ensure that the financial administration of the council is dealt with in a proper manner. The council's Financial Regulations incorporate the requirement that an Annual Audit Report showing the activity of the Internal Audit service and progress achieved against the plan shall be presented to the Audit and Scrutiny Committee each year. Contained within this report shall be an assurance statement to the Council on the adequacy of controls. Whilst audit work is also carried out on behalf of the Integration Joint Board

and the East Renfrewshire Culture and Leisure Trust, fundamental responsibility is to the management of the Council should there be any potential conflict.

- 2.3 The Audit and Scrutiny Committee's terms of reference require it to evaluate the internal control environment and provide an annual statement to the Council. To assist with this evaluation, Internal Audit is required to provide the Audit and Scrutiny Committee with an annual statement on the adequacy and effectiveness of internal control.

3. ACHIEVEMENT OF ANNUAL AUDIT PLAN

- 3.1 Internal audit activity during the year was again impacted by reduced staff resources. Six audits in the plan were unable to be completed during the year and most of these will now be undertaken in 2023/24.

The results of internal audit's progress against the annual plan has been reported to Audit and Scrutiny Committee quarterly and is summarised in Appendix C.

The original 2022/23 plan provided 639 (661 2021/22) direct audit days (i.e. excluding 167 days for planning, reporting, administration, training, consultancy work, seminars, secondments and meetings) spread across various audit activities and council departments. The actual number of audit days achieved was 454. Details of audit work carried out analysed by type of audit is shown in table 1 below.

Table 1 – Audit Work by Type of Audit

Type of Audit	Original Planned Days 2022/23	Actual Days 2022/23	Variance in days (Planned to actual)
Systems and Regularity	397	296	(101)
Contract	20	0	(20)
Computer	12	12	0
General and Fraud Contingency	100	47	(53)
Performance Indicators	5	5	0
Follow up of previous year	55	63	8
Grant Certification	15	0	(15)
Trust	20	25	5
IJB	15	6	(9)
Total	639	454	185

- 3.2 Despite a reduction of planned audits being completed, internal audit issued 26 reports and memos relating to 2022/23 audit work which contained in excess of 200 recommendations in total, of which 31 were designated high risk. Details of reports issued were included in the quarterly progress reports during the year once the departmental responses had been received. Eight of the reports were issued after the year end. Satisfactory responses have now been received for all audit reports relating to 2022/23 which were issued.
- 3.3 There was only one report where the recommendations were not fully accepted.
- 3.4 One recommendation within the Housing Benefits report (1187NS) was not accepted. The recommendation related to backdates and was classified as medium risk. The management response indicated that system functionality for

identifying backdates could not be adopted for housing benefits only and therefore due to operational difficulties, it is not practical to implement.

- 3.5 Detail of this recommendation has already been included in a previous quarterly progress report.
- 3.6 Internal audit's approach always attempts to be constructive and this appears to have been welcomed by departments. A good working relationship exists between internal audit and the council's appointed external auditors.

4. SUMMARY OF AUDIT ACTIVITIES 2022/23

- 4.1 Internal Audit carried out a range of activities throughout the year, however systems and regularity based reviews continue to represent two of the main elements of planned activity. Systems reviews focus on identifying, assessing and testing the adequacy and effectiveness of controls in place to ensure the underlying objectives of the system are met whereas regularity focuses more on compliance testing. The key systems and regularity audits carried out were as follows:

- Debtors
- Housing Benefits
- Ordering and Certification
- Treasury Management
- Council Tax – recovery and enforcement
- Creditors
- Stores
- New Build Council Houses

- 4.2 Overall, the audit findings of these areas suggested that whilst some weaknesses were identified and some elements of control were only partially in place, when taken with other findings they did not significantly impair the overall systems of internal control in the areas reviewed. The exception to this was the audit of new council houses where non-compliance with contract standing orders was noted and is mentioned in the assurance statement below.
- 4.3 Due to timing of issue of the New Build Council Houses report, the summary details have not yet been provided to audit and scrutiny committee members as part of any progress report. However due to the significance of the findings and mention of this in the assurance statement, the report summary findings are included in appendix D for context.
- 4.4 Some other types of audit were also carried out such as regularity and performance indicators. Following each audit, a report detailing appropriate recommendations to address weaknesses in systems and procedures was issued. In general, audit results suggested that although errors and weaknesses were often noted they were not considered to be generally indicative of absent or inadequate controls and that broadly, the level of compliance was satisfactory.
- 4.5 **Follow-up audits:** An ongoing programme of follow-up audits is normally carried out to ensure that recommendations previously made by Internal Audit and accepted by management have been implemented. Six follow up audits were carried out during the year. No responses are outstanding in relation to follow-up audit reports issued during the year. A complete copy of all follow up reports and the associated departmental responses have previously been circulated to Audit and Scrutiny Committee members during the year.
- 4.6 **General contingency:** Five specific requests for assistance/consultancy or guidance on queries/anomalies were received during the year. Two of these were major pieces

of work, both of which have previously been brought to Audit and Scrutiny Committee's attention:

- External Wall Insulation contract where non-compliance with contract standing orders and other issues were reported. This is considered a failure in internal controls and is mentioned within the assurance statement below.
- Inaccurate system calculation of national insurance contributions for all payrolls relating to the backdated pay award. Whilst checking the national insurance calculations, testing identified further concerns relating to how the new payroll system has been set up to calculate various other pay amounts. This is now being audited as part of the 2023/24 payroll audit. The errors noted are not thought to be material to the year end financial statement and the matter is noted within the assurance statement.

4.7 **Fraud contingency:** Internal Audit also has responsibility for investigating as appropriate all alleged frauds and irregularities which have been brought to audit's attention in accordance with the Council's Anti-Fraud, Bribery and Theft Strategy. The number of frauds and irregularities and the level of resources required to investigate them are always difficult to estimate. Three potentially fraudulent matters brought to Audit's attention were investigated during the year using budgeted fraud contingency time. The first case did not warrant further action, nor did it involve any financial loss to the Council. The second and third cases related to theft of council property and cash from council premises valued at an estimated £40 and £600 respectively. The latter case was reported to Police Scotland.

4.8 In addition, as mentioned last year, there was a potentially fraudulent case which was primarily investigated during 2021/22 but was started at the end of 2020/21. This case is not counted within the three fraudulent matters mentioned above. It involved significant potential cost or loss to the Council and has previously been brought to the attention of Audit and Scrutiny Committee members. This case is still under investigation by Police Scotland and therefore the current position remains that no further information can be provided at this time. This was also mentioned in the assurance statement last year but is not included in the current year assurance statement as it did not impact on assurances gained within 2022/23.

4.9 Frauds and irregularities included in Audit Scotland's quarterly Fraud Digests were also considered in relation to practices within the Council, to proactively try and identify potential weaknesses and ensure that appropriate measures have been taken or are in place to prevent these happening within East Renfrewshire.

5. COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

5.1 In 2017/18, an external assessment of PSIAS was carried out and submitted to the Audit and Scrutiny Committee in June 2018. The results of that review confirmed that the Internal Audit function has sound documentation standards and reporting procedures in place and complies with the main requirements of PSIAS.

5.2 An internal self-assessment of compliance with PSIAS was subsequently carried out and the results presented to the Audit and Scrutiny Committee in June 2019. The self-assessment concluded that the internal audit service were fully compliant with 95% of the standards and partially compliant with a further 4%. This is broadly in line with the findings of the first external assessment. The self-assessment was reviewed in July 2020 and August 2021 which confirmed the levels of compliance previously reported.

A second external assessment is currently under way and the results of this will be presented to the Audit and Scrutiny Committee as soon as it is available.

- 5.3 A Quality Assurance and Improvement Plan (QAIP) was prepared as part of the most recent self-assessment review in 2020 and this was included in last year's annual report however all actions are now fully implemented. A new QAIP will be available after the conclusion of the external assessment which is currently under way.
- 5.4 One of the requirements of the PSIAS is that the internal audit service must be free from interference in determining the scope of internal auditing, performing work and communicating results. I can confirm that during 2022/23, the internal audit service has operated without any such interference.
- 5.5 Another requirement of PSIAS is that the internal audit function is adequately resourced. It is possible that adverse comment will be made in the external assessment as I do not consider the internal audit section to be adequately resourced due to the two vacant posts and is a position that is not sustainable long term. The proposal is to try and recruit again soon or consider alternatives.

6. INTERNAL AUDIT PERFORMANCE INDICATORS

- 6.1 A range of key performance indicators are used to measure Internal Audit's performance. Some of these indicators have been reported to the Audit and Scrutiny Committee on a quarterly basis, whereas it is only appropriate to report others on an annual basis.
- 6.2 A summary of all the indicators is given in Appendix B with the targets and actual achievement for the full year. Three of the targets were not met;
- 2.1 which measures actual direct audit days compared to planned days,
 - 3.3 which measures percentage of qualified staff in post at year end and
 - 5.2 which measures the time to complete an audit.

A number of factors impacted Internal Audit's ability to meet its performance targets including:

- slow responses from departments for some audits to allow reports to be cleared.
- reduced internal audit staff resources due to two vacant posts

7. ANNUAL INTERNAL AUDIT OPINION

- 7.1 There is a formal requirement for the Chief Auditor to prepare an annual report which contains an assurance statement on the adequacy of governance, risk management and internal control systems. Such systems need to be monitored so that management and Members may be sure that they continue to be effective. Monitoring of controls is done at a number of levels, for example, assessment by line management, internal audit and external audit review and subsequent reporting to management of identified weaknesses and recommendations, and monitoring by the Audit and Scrutiny Committee. If monitoring of control is to be effective, then senior management must foster an environment where internal control is the responsibility of all staff.
- 7.2 The Internal Audit Annual Statement of Assurance is included in Appendix A. The evaluation of the control environment is informed by a number of sources as detailed in the appendix.
- 7.3 In reviewing these different sources of evidence, consideration has to be given as to whether any key controls are absent or ineffective and when taken together with other

findings, would lead to the conclusion that the overall system of control has been significantly impaired as a result.

- 7.4 Based on the information available, the formal annual statement of assurance did not lead me to conclude that the Council's overall systems of governance, risk management and internal control were significantly or materially impaired during 2022/23 except for instances of non-compliance with contract standing orders that were noted in two separate audits during the year. As noted above, there are also ongoing concerns on the accuracy of calculations within the payroll system and we continue to investigate this, however any inaccuracies are very unlikely to be material to the Council's year end accounts.

8. CONCLUSION

- 8.1 The 2022/23 audit year was challenging for Internal Audit as the audit plan was again substantially impacted by reduced staffing levels due to failure to fill existing vacant post and a second post becoming vacant due to internal transfer. Despite this, sufficient audits were able to be completed to allow an opinion to be given in the annual statement of assurance.

APPENDIX A

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2022/23

As Chief Auditor of East Renfrewshire Council, and in line with the Public Sector Internal Audit Standards (PSIAS), I am pleased to present my annual statement on the overall adequacy and effectiveness of the governance, risk management and control systems of the Council for the year ended 31 March 2023.

Respective Responsibilities of Management and Internal Audit in relation to Governance, Risk Management and Internal Control

It is the responsibility of the Council's senior management to establish appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of these systems.

It is the responsibility of the Chief Auditor to provide an independent annual overall assessment of the robustness of governance, risk management and internal control.

The Council's Framework of Governance, Risk Management and Internal Controls

The main objectives of the Council's framework of governance, risk management and internal control are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of governance, risk management and internal control.

The work of Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control in all service areas as a contribution to the proper, economic, efficient and effective use of the Council's resources.

During 2022/23, the internal audit service operated in accordance with the Public Sector Internal Audit Standards (PSIAS). In particular, the service operated free from interference in determining the scope of internal audit, performing work and communicating results. A self-assessment was carried out and submitted to the Audit and Scrutiny Committee in August 2021. An external peer assessment is currently being undertaken and the results will be presented to the Audit and Scrutiny Committee in due course. The results of this review are not yet available but it is expected that it will conclude that the internal audit section continues to operate in compliance with the Public Sector Internal Audit Standards. A quality assurance improvement plan was previously developed to further enhance compliance but all actions were fully completed and reported in last year's annual report so no improvement plan is included in this year's report.

The service undertakes an annual programme of work approved by the Audit Committee based on a five year strategic plan. The strategic plan is based on a formal risk based audit needs assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that an appropriate action plan is provided in response to audit recommendations. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Key matters arising from internal audit work are reported to the Chief Executive and the Council's Audit and Scrutiny Committee. Follow up work is carried out by Internal Audit to ensure that recommendations previously accepted by management have been implemented. Copies of these reports are circulated to members of the Audit and Scrutiny Committee.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2023 and material findings since the year end
- The audit work undertaken by Internal Audit in previous years and follow up work to assess implementation of agreed actions
- The assessment of risk completed during the preparation of the strategic audit plan
- Assessments of the general control environment within individual departments as completed by each director
- Reports issued by the Council's external auditors and other review and inspection agencies
- Knowledge of the Council's governance, risk management and performance monitoring arrangements
- Any other items brought to the attention of internal audit staff by whatever means which may warrant further investigation.

Opinion

Completing audits from the 2022/23 audit plan was difficult due to severely reduced staff resources and the continuing challenges of completing audits and obtaining information from departments. Six audits were deleted from the plan as indicated in appendix C, all other audits have now been completed and issued.

It is therefore my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2023 except for one area. This area is non-compliance with contract standing orders which was noted in two separate audit reports.

In addition, for noting only, there are audit concerns that some calculations within the payroll system are inaccurate though it is not expected that these will be material to the Council's year end accounts for 2022/23. The audit into establishing the extent of these concerns is ongoing at this time.

Michelle Blair FCA
Chief Auditor

8 September 2023

Internal Audit Performance Indicators 2022/23

Indicator	Definitions (where required)	Target (where applicable)	Actual 2022/23	Actual 2021/22	Actual 2020/21
1. Cost					
1.1 Cost of Internal Audit per productive day.	Productive days are those spent on direct audit activities.	-	£479	£499	£647
2. Audit Coverage					
2.1 Actual direct audit days as a % of planned direct audit days per the plan.	Planned direct audit days as detailed in the strategic audit plan.	100%	71%	81%	49%
2.2 Actual direct audit days as a percentage of total days available.	Days available exclude public holidays, annual leave and sickness absence.	75%	78%	76%	50%
2.3 Number of requests for assistance/ queries raised by departments outwith planned audit work.	This will generally include most items met from general and fraud contingency. This is contextual information only.	-	8	8	8
2.4 Percentage of planned contingency time used.	Actual contingency time used as a percentage of total planned contingency time. This is mainly for contextual information.	<100%	47%	76%	58%
3. Quality					
3.1 Number of questionnaires issued during the year. (Note: questionnaire sent electronically so this now records the number of responses)			0	0	27
3.2 Percentage of customer questionnaires with overall rating of satisfactory or better.		90%	n/a	n/a	93%
3.3 Percentage of established audit posts (FTE) at year end filled by staff with relevant professional qualification.		45%	37%	57%	57%
4. Achievement of Plan	Total number of audits defined as number per strategic annual plan. Number achieved defined as number of audits from plan which were started during the year.				
4.1 No of audits achieved as a percentage of all audits planned during the year.		90%	80%	70%	44%
5. Issue of Reports					
5.1 Number of audit reports issued		-	26	18	14
5.2 Average time in weeks from start of fieldwork to issue of report.	Start of fieldwork defined as when auditor starts gathering information or preparing file. Initial phone call to set up the audit would not be counted as start of fieldwork.	12 weeks	16 weeks	20 weeks	26 weeks
5.3 Average time taken to issue report (working days).	Speed of issue of report is measured from date file is handed to Chief Auditor for review to date of issue of report. GENERAL Average weeks calculated as working days divided by 5. Working days exclude weekends, public holidays, annual leave, training and sickness absence.	10 working days	10 working days	10 working days	23 working days

BLANK PAGE

EAST RENFREWSHIRE COUNCIL
Internal Audit Section
ACHIEVEMENT OF ANNUAL AUDIT PLAN FOR 2022/23

Department	Title	Audit Number	Original No. of days	Status
Chief Executives	Treasury Management	1	18	Complete
	Ordering and Certification	2	20	Complete
	VAT	3	12	Complete
Business Operations & Partnerships	Barrhead Payment Centre	4	11	Complete
	Creditors	5	24	Complete
	Debtors	6	10	Complete
	Housing Benefits/Universal Credit	7	30	Complete
	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	Complete
	Climate Change Report	17	5	Complete
	Energy and Fuel	18	20	DELETE
Housing	New Build Council Houses	19	24	Complete
HSCP	Direct Payments	20	20	Complete
	Barrhead Resource Centre	21	10	Complete
	IJB	22	15	Complete
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
			639	

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.

BLANK PAGE

NEW BUILD HOUSES SUMMARY RECOMMENDATIONS

1. MB/1176FM New Build Council Houses

As part of the 2022/23 audit plan, an audit of new build Council Houses was undertaken. This is the first time an audit of new build council houses has been carried out. In 2020, the Head of Environment (Housing, Property and Climate Change) (HPCC) first requested that this new topic was considered for inclusion in the audit plan as it was a new area for Housing staff to deal with and it was acknowledged that this came with its own challenges and risks. The start of the audit however was deferred a couple of times due to Covid and audit resourcing issues.

During November 2016 a report was presented to Cabinet seeking approval in principle to build 120 new council houses in the next 3 to 5 years. During January 2018, approval was sought to build an additional 120 new council houses, resulting in a total of 240 additional properties to be owned and managed by the Council. Funding for these new build properties was to be a combination of capital borrowing and subsidy from the Scottish Government. It was proposed that some properties would be purchased off the shelf from housing developers as part of a wider mixed tenure development and for other properties, a direct award was to be made via the SPA framework to a preferred contractor to deliver the properties.

At the time of the audit, a total of 92 new design and build properties had been completed in Barrhead and 69 off-the-shelf properties completed in Newton Mearns, with a further 13 off-the-shelf properties being completed in Newton Mearns as the audit concluded.

The main risks are that works are not properly procured, contracts are not monitored and overspends occur or work is not carried out in accordance with the contract.

The audit objectives were as follows:

- Scottish Government regulations relating to the new builds have been complied with
- Council Contract Standing Orders have been complied with
- Procurement processes have been complied with and best value has been achieved.
- Appropriate mechanisms and procedures were in place throughout the process.
- Design and specification elements were delivered.
- Environmental works determined at the planning stages were delivered in accordance with agreements.
- Timescales set out in the formal agreements were adhered to.
- Engagement with tenants has taken place to gauge the success of the developments.

During the course of the audit it was noted that procurement processes had not been complied with and contract standing orders had not been followed in relation to one of the contracts for the new build council housing developments at Balgraystone Road (contract value £7.5million). It was also noted that this contract was overspent by approximately £128,000 at the time of the audit and that this was not reported to Cabinet for approval as required per the Contract Standing Orders.

Sixteen recommendations were made, five were classified as high, four as medium risk, and seven as low risk. All recommendations were accepted by management. 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
4.1.1	The Director must ensure in future that all works contracts in excess of £500,000 are signed by the Chief Officer – Legal and Procurement per the Contract Standing Orders.	H	Yes	<p>Circulate Contract Standing Order to all senior managers as a reminder of the contractual rules the council operate.</p> <p>In addition further training will be requested from colleagues from Legal and Procurement Services following the review of Contract Standing Orders for all relevant staff in environment department.</p> <p>A new Housing Investment Board has been established to manage and monitor the housing investment programme with detail on financial, procurement, contracts and project management processes reported. Corporate Procurement and Finance officers will attend.</p>	<p>Principal Business Intelligence Officer / Senior Housing Manager</p> <p>Principal Business Intelligence Officer / Senior Housing Manager</p> <p>Head of Environment (HPCC)</p>	<p>Complete</p> <p>Following Cabinet approval of revised Contract Standing Orders</p> <p>Complete</p>
4.1.2	The Director should always seek advice from the Chief Procurement Officer to confirm the suitability of a framework arrangement prior to entering into such an agreement.	H	Yes	All projects agreed at the Housing Investment Board with Corporate Procurement colleagues present. This will include development of a procurement strategy for all capital works. Quarterly housing investment updates will be provided to the Director for approval. Further advice on process will be sought from the Chief Procurement Officer on process and all relevant staff will be advised on appropriate procedures for approval.	Head of Environment (HPCC)	October 2023
4.1.3	The Director must put arrangements in place to ensure that all necessary documentation and authority has been obtained and that	H	Yes	A new Housing Investment Board has been established to govern the full programme of housing investment and	Head of Environment (HPCC)	Complete

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
	procurement processes have been correctly followed prior to appointing a contractor.			<p>ensure that the programme is fully compliant and track financial and project updates. Corporate Procurement will attend.</p> <p>A new post of Housing Investment Manager will be created to develop and manage New Build Council Housing projects.</p> <p>The Director will lead an internal investigation into the failures which resulted in recent poor audits related to capital projects led by PATS and Housing. With support from an external and independent expert a review will be carried out concluding any further recommended improvement actions for the Council.</p>	<p>Head of Environment (HPCC)</p> <p>Director of Environment</p>	<p>March 2024</p> <p>December 2023</p>
4.1.4	Contingency clauses should be included in all works contracts of significant value.	M	Yes	The building contract was based on a standard form of building contract published by the JCT/SBCC and was the Design and Build Contract for use in Scotland, 2016 Edition. Additional advice will be required from Legal & Procurement Services to determine what additional clauses are required.	Senior Housing Manager/Head of Environment (HPCC)	November 2023
4.2.1	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.	H	Yes	A paper will be presented to Cabinet 12 th October 2023	Senior Housing Manager/Head of Environment (HPCC)	October 2023
4.3.1	Further building contractor related costs must not be incurred on the Barrhead Road development or other sites until a building contractor has been correctly appointed.	M	Yes	All works on build and design sites have been suspended until the appropriate procurement process has been completed.	Senior Housing Manager/Head of Environment (HPCC)	Complete
4.7.1	Contract standing orders must be fully complied with at all times and the procurement team must be involved for all spend above the specified limits.	H	Yes	<p>Circulate Contract Standing Order to all senior managers</p> <p>Housing Services managers and lead officers have been reminded of the</p>	Principal Business Intelligence Officer / Senior Housing Manager	Complete

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
				CSO's. It has been agreed training will be delivered by Legal & Procurement Services.		
4.8.1	The Council should ask the employers agent to request a refund of £92,257 from the contractor in respect of the SPA levy that was included in the contract sum but was not valid.	M	Yes	Following discussions with the contractor, this fee has been removed from the final account.	Head of Environment (HPCC)	Complete
4.9.2	A capital appraisal form must be completed for every project to be included in the capital plan	M	Yes	Relevant Officers from Housing Services have been instructed accordingly.	Senior Housing Manager/Head of Environment (HPCC)	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
Efficiency	<ul style="list-style-type: none"> • These recommendations are made for the purposes of improving efficiency, digitalisation or reducing duplication of effort to separately identify them from recommendations which are more compliance based or good practice.