

Agenda Item	4
Report No	AS/3/21

THE HIGHLAND COUNCIL

Committee: **Audit & Scrutiny Committee**

Date: **31st March 2021**

Report Title: **Internal Audit Reviews and Progress Report – 14/11/20 – 19/03/21**

Report By: **Corporate Audit Manager**

1. Purpose/Executive Summary

1.1 This report provides details of the final reports issued since the last regular Committee meeting on 29/11/20. This includes details of the work in progress and other information relevant to the operation of the Internal Audit section.

2. Recommendations

2.1 Members are asked to:

- i. consider the Final Reports referred to in Section 4.1 of the report,
- ii. note the current work of the Internal Audit Section outlined at section 5 of the report, details of progress against the 2020/21 audit plan at **Appendix 1** and that work in progress or not started will be carried forward into the next year,
- iii. note a limitation of scope will be provided within the 2020/21 annual audit opinion with regard to the aspect of internal control. The suggested wording provided by CIPFA (see **Appendix 2**) will be used within the annual report and for the annual governance statement, and
- iv. note that the normal audit planning process will commence later than usual with the aim of producing the 2021/22 audit plan for approval by the Audit & Scrutiny Committee on 17/06/21.

3. Implications

3.1 Risk – the risks and any associated system or control weaknesses identified as a result of any internal audits or corporate fraud investigations will be reviewed and recommendations made for improvement.

3.2 There are no Resource, Legal, Community (Equality, Poverty, Rural and Island), Climate Change/ Carbon Clever or Gaelic implications. Any implications arising from the agreed management actions in response to audit recommendations should be

addressed by the relevant Service.

4. Audit Reports

4.1 There have been **2** final reports issued in this period as referred to in the table below:

Service	Subject	Opinion
Education & Learning	Payment of Relief School Staff	Reasonable Assurance
Infrastructure & Environment	Review of Covid-19 grants	Reasonable Assurance

Each report contains an audit opinion based upon the work performed in respect of the subject under review. The five audit opinions are set out as follows:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iv) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
- (v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

5. Other Work

5.1 In addition to the reports referred to at section 4.1 above, the Section has been involved in a variety of other work which is summarised below:

(i) Audits for other Boards, Committees or Organisations

Audit work has been undertaken for the Valuation Joint Board and the Pension Fund during this period.

(ii) Corporate Fraud and other investigations activity

As reported last time, significant time has been spent providing information to Police Scotland through the Single Point of Contact (SPOC) arrangements. Work has also continued investigating suspected fraudulent Covid-19 grant applications.

The Department of Work and Pensions has recently recommenced their benefit investigations and this has resulted in a number of requests for information through the SPOC.

In addition to the audit of the Covid-19 grants, following a request from management, the Team have been assisting in fraud prevention checks for business top-up grant applications for the hospitality, retail and leisure sectors.

These checks focussed on larger grant sums and reflected the learning from earlier grant schemes where a number of attempts from fraudsters trying to claim the higher grant sums were identified. To date 141 applications have been referred by the grants team and following the additional checks, 128 were assessed as fraudulent.

The National Fraud Initiative (NFI) 2020/21 exercise has commenced and in addition to the normal data provided this has been expanded to include Covid-19 grants for the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund. Furthermore, following a 2019 pilot in which the Council participated, the business rates Small Business Bonus Scheme has been added and instructions are awaited from Audit Scotland as to when the data should be provided.

An investigation was undertaken during this period in response to concerns that purchase card transactions could be fraudulent; in this case they were found to be legitimate but scope for improvement in the systems has been identified. It should also be acknowledged that this referral was due to the vigilance of management being alert to the risk of fraud. Investigations are also ongoing into alleged misuse of the car club scheme and missing petty cash. Once concluded the necessary "system weaknesses" reports will be prepared and provided to Committee for consideration.

6. Progress against the 2020/21 audit plan, annual audit opinion and 2021/22 audit plan

6.1 The Public Sector Internal Audit Standards require the Chief Audit Executive (Corporate Audit Manager) to provide an annual audit opinion on the Council's framework of governance, risk management and control which is also used to inform its annual governance statement. The planned work each year is undertaken with a view to providing this opinion. As reported to the September 20 Committee, a reduced audit plan was prepared for 2020/21. Furthermore, the ongoing response to the Covid-19 pandemic has meant that in some cases audits have not commenced or there has been delays due to staffing resources being diverted elsewhere. Details of progress against the plan is provided at **Appendix 1**.

6.2 CIPFA has recognised that Covid-19 has impacted upon internal audit activity and the question whether internal audit services have been able to undertake sufficient work during the year to provide the annual opinion. This resulted in guidance being issued in November (copy attached as **Appendix 2**) detailing where a limitation of scope may be necessary and suggested wording.

It is considered that insufficient work has been undertaken within the requirements of the internal control aspect. No other limitation is expected. The suggested wording provided by CIPFA will be used within the annual report and for the annual governance statement.

In accordance with the guidance the Committee Chair and the Executive Leadership Team have been informed of this limitation.

6.3 The standards also require the Chief Audit Executive prepare a risk-based tactical plan each year for approval by the Board (Audit & Scrutiny Committee). To comply with the standards, in preparing the plan, consultation should take place with senior management.

This is usually undertaken in January/ February each year where annual audit planning meetings are undertaken with the Chief Executive and each of the ECOs in order to identify any areas of risk, new developments and other matters that should be considered for inclusion in the annual audit plan. This plan would then normally be

approved by the March meeting of the Audit & Scrutiny Committee.

Responding to the latest lockdown which commenced on 04/01/21 and preparation of the budget for 2021/22 has been the main focus of senior management and so the normal annual audit planning meetings have not yet taken place. Therefore, the following approach has been agreed:

- Audits from the 2020/21 audit plan which are either in progress or not yet commenced at year-end will be carried forward into 2021/22.
- Audits which were originally proposed for the 2020/21 audit plan but had to be removed due to the reduction in resources were considered for carry forward into 2021/22. The views of the ELT were sought in order to inform which audits can be undertaken and these will be ranked in priority order for completion once the above have been completed.
- The normal audit planning process will be undertaken later with the aim of the plan being approved by the June Audit & Scrutiny Committee.

6.4 Performance information for quarters 1-3 of 2020/21 is provided below.

Category	Performance Indicator	Target	2020/21 Actuals		
			Qtr 1	Qtr 2	Qtr 3
Quality					
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires (CAQ)	75	74	90	92
	(ii) % of Client Audit Questionnaires returned	70	100	100	33
Business Processes					
Timeliness of Final Report	(i) % of draft reports responded to by client within 20 days of issue	85	0	0	80
	(ii) % of final reports issued within 10 days of receipt of management response	90	100	100	100

Designation: Corporate Audit Manager

Date: 19th March 2021

Author: Donna Sutherland

Progress against 2020/21 Plan**Appendix 1**

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Chief Executive (now Performance & Governance)	HCX02/001 - Review of Resilience Arrangements	Review of resilience arrangements operating within the Council including business continuity and emergency planning. Now includes lessons learned post Covid-19.	Strategic Risk	30	Work being split due to ongoing response to pandemic. Will cover lessons learned for the Annual Report and remaining scope c/f to 2021/22.
Communities & Place	HCC03/005.bf.bf - Fleet Management arrangements	Review of the fleet management arrangements to ensure that these accord with the requirements of the Councils operator's licence. This will also include review of the Tranman system.	Operational Risk	5	Fieldwork completed
Education & Learning	HEL07/001 - Workforce Planning and Staffing Arrangements - Education	Review of primary recruitment probationer allocations, job sizing processes and processing of changes to staff terms and conditions.	Operational Risk	6	Final report issued
Education & Learning	HAB02/001.bf - Review of the systems for the payment of relief and temporary school staff	Review of process for the submission of hours claimed using payroll forms to ensure that this is appropriate and appropriate controls are exercised over claims. Also to ensure that these are used for the correct groups of staff and cannot be used to bypass the system for the management of vacancies.	Strategic Risk	17	Final report issued

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Infrastructure & Environment	HCC02/002.bf - Car Parks	Review of car park arrangements across the Council including deployment of staff, income systems and parking enforcement arrangements.	Operational Risk	1	Final report issued
Infrastructure & Environment	HEB03/002.bf - Review of flood prevention capital projects	Review of the project management arrangements in place in respect of selected Flood Team projects and that these comply with relevant project governance guidance and procedures.	Contract Audit	17	Final report issued
Property & Housing	HEC05/001.bf - Collection of school meals income	Review of the arrangements for the collection of school meals income to ensure that this is operating as efficiently as possible. This will also include review of the arrangements for the effective management of debt.	Operational Risk	3	Final report issued
Resources & Finance	HDA08/015.bf - Pension Fund Contributions	Review of the arrangements for the admission of members to the Fund and collection of contributions. Also, there are appropriate controls over fund transfers to ensure these are calculated accurately and processed promptly.	Operational Risk	10	Final report issued

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Resources & Finance	HDA16/002.bf - Review of purchase to pay arrangements	Corporate review of the arrangements for the purchasing and payment of goods and services to ensure that appropriate controls are in place. This links with budgetary control arrangements and consideration of the roles and responsibilities of budget holders in approving expenditure, and monitoring and control of their budgets.	Main Financial System	22	Fieldwork in progress.
Resources & Finance	HDA16/003.bf - Procurement	Review of significant areas of expenditure to ensure that contract suppliers are in place and are used as appropriate.	Main Financial System	18	TOR issued
Resources & Finance	HDD04/004.bf - Cyber Security	Review of the Council's Cyber Security arrangements to ensure that these are appropriate and effective. This will also include review of the service's incidence response arrangements. Review of the risks arising from Covid-19 and staff homeworking and what controls were put in place to manage or mitigate these.	Strategic Risk	38	TOR issued
Resources & Finance	HDD04/005.bf - ICT Contract Management Arrangements	Review of the arrangements for the management of the ICT contract with Wipro to ensure that these are working effectively.	Strategic Risk	1	Final report issued

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Performance & Governance	HPG06/001 - Governance of Arms Length External Organisations and Partnerships	Review of the arrangements for the effective governance of ALEOs and partnerships to ensure that these are working as effectively as possible and there is clarity over roles and responsibilities with no duplication by different organisations.	Corporate Governance	25	Being planned
Performance & Governance	HPG09/001 - Compliance with the General Data Protection Regulations	Review of the arrangements across the Council for compliance with the General Data Protection Regulations (GDPR).	Operational Risk	20	Being planned
Resources & Finance	HRF01/001 - Review of financial management and reporting	High level review of the Council's financial management arrangements.	Main Financial System	20	Not started
Resources & Finance	HRF05/001 - Pension Fund Investments	Review of the arrangements in place for Pension Fund investments.	Operational Risk	15	Being planned
Resources & Finance	HRF08/002 - Pension Fund Annual Governance Assurance Statement 2019-20	Allowance of time for work associated with producing the annual audit opinion and annual Governance Assurance Statement (AGS).	Corporate Governance	3	Work completed.
Resources & Finance	HRF16/001 - HC Annual Governance Statement 2019-20	Allowance for work to be undertaken in order to support the annual audit opinion and Annual Governance Statement within the annual accounts.	Corporate Governance	7	Work completed.

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Resources & Finance	HRF22/001 - Review of CT and NDR discounts and exemptions	Review of the systems for the award of discounts and exemptions to ensure these comply with the relevant legislation or Council policies. Ensure that these are regularly reviewed to ensure that ongoing awards are still valid.	Main Financial System	25	TOR issued
Resources & Finance	HRF30/001 - Review of workforce planning arrangements	Corporate review of workforce planning arrangements across the Council.	Strategic Risk	30	Not started
Resources & Finance	HRF30/002 - Review of Absence Management Arrangements (follow-up)	Follow-up review to ensure that the management agreed actions from the previous audit of absence management arrangements (ref HDD01/005) have been satisfactorily implemented.	Follow-up	15	Not started
Resources & Finance	HRF30/003 - Review of Human Resources Arrangements	Review of HR arrangements including policies and procedures and whether these are fit for purpose.	Operational Risk	20	Not started
Resources & Finance	HRF30/004 - Review of recruitment process for ECO Education & Learning	Review of the process for the recruitment and appointment of a Consultant as the Interim ECO for Education & Learning.	Unplanned audit	10	Final report issued

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Resources & Finance	HRF40/001 - Commercial and Procurement Services	Review of supply chain arrangements particularly what has been learned from Covid-19.	Strategic Risk	20	Not started
Transformation & Economy (Economy)	HAC03/002.bf - Review of the arrangements for the funding to External and Third Sector Organisations	Review of the arrangements for the funding and payment to organisations to ensure this is undertaken in a consistent manner. Also, that any arrangements accord with Council policies including the single grants process, procurement requirements and Following the Public Pound guidance.	Operational Risk	21	Being planned
Transformation & Economy (Transformation)	HTE04/001 - Review of Transformation Programme Outcomes	Review of the Transformation Programme to date to ensure that the planned outcomes have already or are on course to be achieved. This will also include consideration of the process to ensure that any redesign recommendations and commercial opportunities identified have been implemented and followed through.	Strategic Risk	30	Being planned, scope being amended to focus on recovery as Covid-19 affected this programme
Transformation & Economy (Economy)	HTE05/001 - Leader Programme 2019-20	Annual review of the administration of the Programme to ensure that the Service Level Agreement (SLA) with the Scottish Government is complied with and all activity accords with the relevant policies and procedures.	Operational Risk	25	Final report issued

Service	Audit Ref and Name	Audit Scope	Audit Type	Planned Days	Status/ Comments
Transformation & Economy (Economy)	HTE05/003 - Review of Covid-19 business grants	Review of the processes followed for the award of grants to businesses to ensure that these were in accordance with the Scottish Government's guidance and these contained appropriate controls.	Operational Risk	20	Final report issued



CIPFA Guidance to Internal Auditors and the Leadership Team and Audit Committee of Local Government Bodies

Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

Introduction and rationale for the guidance

The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) for the head of internal audit (HIA) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that the public body relies on for its annual governance statement.

CIPFA recognises that local government bodies are struggling with considerable challenges and are having to make difficult decisions on how best to use their available staff and financial resources to meet critical needs. However, the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed. In this difficult situation, heads of internal audit will need to consider whether they can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the HIA is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards. This is an issue not only for the HIA but also for the leadership team and the audit committee who normally rely on that opinion. It may also have wider consequences for stakeholder assessments of the organisation.

While the limitation of scope will only be formally published in 2021 as part of the HIA's annual report, this guidance addresses the importance of early identification of the risk. It suggests mitigating actions to be taken now to avoid a limited scope where possible. If a limited scope does become necessary the guidance suggests possible wording to use in the report.

Status of the CIPFA guidance

This guidance is prepared by CIPFA for internal auditors working in or for local government in the UK. CIPFA is the Relevant Internal Audit Standard Setter (RIASS) for local government and works with the other UK RIASS¹ to mandate the PSIAS across the public sector. This guidance has been shared with the other RIASS and other members of the Internal Audit Standards Advisory Board including the Chartered Institute of Internal Auditors. Other sectors should look to the appropriate RIASS for guidance.

This guidance is a sector specific requirement for local government in the UK.

¹ The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health and Social Care in respect of the health sector in England (excluding foundation trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Key requirements for local government bodies

The key requirements that heads of internal audit, leadership teams and audit committees should follow are set out below and are supported by additional explanation.

1. The HIA should plan to obtain sufficient assurance to support the annual opinion, taking into account both internal audit work and other sources of assurance. The reliance the HIA is placing on other sources of assurance should be disclosed in the overall opinion.
2. The HIA, leadership team and audit committee should review and discuss internal audit capacity where there are concerns and develop an action plan to mitigate the risk.
3. The HIA should make best use of their audit resources to maximise assurance.
4. Where the HIA considers that a limitation of scope is likely, the leadership team and audit committee should be advised promptly. The HIA should set out the likely consequences assessed and advise on remedial action to avoid a limitation of scope.
5. The HIA annual report should contain a clear explanation of any limitation of scope along with its causes and plans to address the situation going forward.
6. Where the HIA annual report and opinion contains a limitation of scope the authority should state this in the annual governance statement.

Detailed guidance to support implementation

Planning adequate assurance to support the annual opinion

Just as in more normal times the HIA should plan audit work to ensure that sufficient assurance will be available to support the annual opinion. This guidance will not go into details about risk-based audit planning but it emphasises that the professional requirements of PSIAS have not changed. It is likely that internal audit plans will be more fluid than normal as a result of the impact of the pandemic on the organisation. Head of internal audit should already have agreed new audit priorities to cover the new risks and changes from the impact of COVID-19 and that work will provide support for the annual opinion.

CIPFA recognises that the impact of COVID-19 and the capacity of the organisation to respond will vary as a result of a number of factors. Alongside direct internal audit work the HIA can also place reliance on other assurance providers, as set out in PSIAS 250. However it is important to recognise that the quality and availability of that other assurance may also be impacted adversely by the pandemic in some organisations. These factors are likely to be beyond the control of the HIA.

The factors impacting on the availability of assurance from internal audit and other sources of assurance include:

- the changing risks and impacts on the organisation itself
- whether key governance, risk management and internal control arrangements have deteriorated or been maintained
- changes to the resource base of internal audit, whether staff or budget related
- demands on internal audit for any advisory or non-audit support that will not directly support the HIA opinion
- operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs.

Where an organisation has adopted a comprehensive assurance framework then this may be used by the HIA to support the opinion, if those other sources of assurance are demonstrated to be robust. CIPFA's [Financial Management Code](#) (FM Code), which is applicable to all UK local government bodies, has

assurance as one of its key principles. Principle C of the FM Code clearly sets out the responsibility of the leadership team to establish and support appropriate arrangements:

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

The CIPFA [Statement on the Role of the Head of Internal Audit](#) also emphasises the responsibility of the leadership team for establishing wider frameworks of assurance and accountability.

Engagement between the leadership team, audit committee and HIA

The PSIAS require regular communication and engagement with the leadership team and audit committee on the development of the internal audit plan (PSIAS 2010 and 2020), its execution (PSIAS 2060) and the results of the audit engagements (PSIAS 2400). Each organisation will have its own agreed arrangements in place that will also take into account the terms of reference of the audit committee. The CIPFA [Position Statement on Audit Committees in Local Authorities and Police](#) (2018) sets out the responsibility for the audit committee to provide oversight of the independence, performance and professionalism of internal audit.

PSIAS 2030 requires the HIA to ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. If the HIA believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, the consequences must be brought to the attention of the leadership team and audit committee promptly. The CIPFA *Statement on the Role of the Head of Internal Audit* is clear that to perform their role effectively the HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively (Principle 4).

It is the responsibility of the organisation's leadership team to provide the HIA with the resources, expertise and systems necessary to perform their role effectively. Therefore it is essential for there to be meaningful engagement between the HIA, leadership team and audit committee. If the HIA has concerns about the quantity or calibre of internal audit resources available or there are other operational barriers to the delivery of the audit plan, they should assess the impact and likely consequences for the annual opinion and work with the leadership team and audit committee to find solutions to bridge the gap.

Making effective use of internal audit resources

When delivering the risk-based audit plan the HIA, supported by the leadership team, should make every effort to make best use of available internal audit resources over the remainder of the year. Possible actions could include:

- Streamlining audit processes to increase capacity.
- Narrowing the focus of audit scopes to examine only key risks
- Filling vacant audit posts, whether permanently, on a temporary basis or buying in audit expertise from an external provider.
- Exploring opportunities for internal secondments or other support for the audit team from non-internal audit staff who can nevertheless undertake some internal audit work.
- Evaluating any requests for advisory work and prioritising assurance work and advisory work that supports the annual opinion.
- Avoiding diversion of internal audit staff on to counter fraud work, or other non-core audit work, beyond that which is already accommodated within the plan.
- Increasing communication with client services to help ensure good co-operation from client services and avoid unnecessary delays in undertaking engagements.

Where the internal audit service provides services to partner bodies or on a commercial basis then agreements in place may provide little scope to amend resourcing in the short term.

Early identification of a limitation of scope

A limitation of scope arises where the HIA is unable to draw on sufficient assurance to issue a complete annual opinion. This should not be confused with an adverse opinion, which arises when sufficient work has been completed to enable the HIA to conclude that arrangements are not adequate and effective.

There are three possible scenarios for a limitation of scope:

1. The HIA has obtained insufficient assurance across each of the three aspects of the opinion: governance, risk management and internal control, and is therefore unable to issue an opinion.
2. The HIA has obtained insufficient assurance across one of the three aspects of the opinion. The limitation of scope will be restricted to that aspect only.
3. The HIA has obtained insufficient assurance across a significant subset of risk or area of operation that is material. An example might be where there were significant engagements set out in the plan that the audit service could not complete.

Where one of these situations is a risk then the HIA should take steps to inform the leadership team and audit committee of it as soon as possible and identify the underlying reasons. As part of the discussions with the leadership team and audit committee the HIA should identify the following:

- the extent of limitation of scope that is likely
- the reasons for limitation being necessary
- remedial steps planned or sought to minimise the extent of the limitation
- consequences of not addressing the risk that a limitation of scope will impact on the opinion.

Understanding the consequences of a limitation of scope

The primary consequence is that the leadership team and those charged with governance do not receive independent assurance that the framework of governance, risk management and control is adequate and effective. Without this assurance the organisation should consider the risk of significant control weaknesses, inefficiencies or poor performance remaining unidentified. In addition, opportunities for improvement may be lost. While internal audit can only offer reasonable assurance, not a 100% guarantee, the presence of that reasonable assurance is rightly valued.

Other consequences to consider:

- The organisation will need to highlight the limitation in its annual governance statement when referring to the HIA opinion
- Where the reason for the limitation also results in significant non-conformance with PSIAS during the year, then the HIA must report that as part of the quality assurance and improvement programme (QAIP) (PSIAS 1320). The results of the QAIP must be included in the annual report (PSIAS 2450). CIPFA's view is that if the limitation of scope is so significant that the HIA cannot provide an annual opinion that fulfils the PSIAS requirement then it is likely that there are other areas of non-conformance. Taken as a whole the internal audit service may no longer conform with PSIAS.
- The internal audit team is only able to state that they conform with the PSIAS if the results of the QAIP can demonstrate that. So if the last EQA concluded that the service conformed, but this year's QAIP demonstrates that the internal audit service does not, then it cannot claim to conform with PSIAS. Non-conformance should be considered for inclusion in the annual governance statement.

- Non-conformance with the PSIAS should also be taken into account when assessing the strength of assurance and the organisation's compliance with the CIPFA FM Code.
- If the internal audit service bids for or supplies its services to other organisations or partner bodies then losing conformance with the standards may have commercial consequences.
- The organisation's external auditor may take the limitation on the audit opinion or non-conformance with PSIAS into account when reviewing overall governance arrangements under the value for money or best value scope of the external audit. Different external audit arrangements apply across the UK and audit committees may wish to discuss this matter with their local auditors to understand the consequences.
- Internal audit will have a smaller than anticipated knowledge base to support future audit planning. The HIA will need to consider the implications for planning and resources as a consequence.
- Outside bodies who may have looked to the internal audit opinion as evidence for the organisation's sound governance may draw adverse inferences from the reported opinion.

Suggested wording of the limitation

In the annual report the HIA should detail the impact of COVID-19 on internal audit and the underlying causes of the limitation of scope. It should set out steps taken to mitigate or compensate, for example where additional reliance has been placed on other assurance providers.

The PSIAS do not specify the wording to use for the opinion section within the annual report but it should be clearly linked to the PSIAS requirement of *the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control*. The suggested wordings below apply when there is a need to accommodate a limitation of scope.

Type of limitation	Suggested wording
<p>The HIA has obtained insufficient assurance across each of the three aspects of the opinion: governance, risk management and internal control, and is therefore unable to issue an opinion.</p>	<p>The results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an HIA annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is a requirement of PSIAS.</p> <p>The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers is presented in the annual report but this does not result in a comprehensive opinion.</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>
<p>The HIA has obtained insufficient assurance across one of the three aspects of the opinion: governance, risk management and internal control. The limitation of scope will be restricted to that aspect only.</p>	<p>The results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an HIA annual opinion on the overall adequacy and effectiveness of the organisation's framework of [specify one of governance, or risk management or control].</p> <p>The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers in respect of [governance or risk management or control] is presented in the annual report but this does not result in an opinion on this aspect.</p> <p>[The HIA can then present their opinion on the remaining two aspects required.]</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>
<p>The HIA has obtained insufficient assurance across a significant subset of risk or area of operation that is material.</p>	<p>The HIA opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is [set out opinion].</p> <p>The HIA opinion however must exclude [specify area excluded] as there is insufficient assurance available for the HIA to offer reasonable assurance.</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>

Note it is possible for the HIA to separate out their annual opinions on governance, risk management and control if it is more meaningful to do so. This might arise for example where one aspect was significantly weaker than the other.

Ensuring there is a robust plan for future years

The HIA, leadership team and audit committee should work together to ensure that internal audit will be sustainable in 2021/22 and onwards. Specifically, they should ensure that the HIA can develop a risk-based plan that will support the annual opinion. Regular reporting and monitoring should take place to ensure that achievement of the plan is on track.

Where the organisation has identified weaknesses in any assurance arrangements beyond internal audit then the leadership team should develop appropriate improvement plans and the audit committee should monitor these regularly.

For further information please contact Diana Melville, Governance Advisor CIPFA

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**Approved by the Public Financial Management Board, CIPFA
19 November 2020**

Internal Audit Final Report

Education and Learning

Payment of Relief School Staff

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	1

Distribution:

Interim Executive Chief Officer - Education and Learning
 Head of Resources, Education and Learning
 Workforce Planning and Staffing Manager, Education and Learning
 Business Support Team Leader, Resources and Finance

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls that put some of the system objectives at risk.

Report Ref: HAB02/001
Draft Date: 05/11/2020
Final Date: 26/11/2020

1. Introduction

- 1.1 The audit examined the arrangements in place for the payment of relief school staff (both teaching and non-teaching). The audit objectives were to: ensure that there were effective processes to pay relief school staff; and that relief school staff were engaged for the correct purpose.
- 1.2 The audit involved a review of the guidance provided by the Workforce Planning Team and the payment information processed by the Business Support Team. Whilst the audit did not consider the resourcing of Additional Support Needs (ASN) it did assess the processes for paying ASN relief staff.
- 1.3 The Council has spent more than £9.9m on relief teaching staff over the previous four years:

Year	Primary Schools (£)	Secondary Schools (£)	All Schools Total (£)
2015/16	1,551,021	910,610	2,461,631
2016/17	1,079,436	911,979	1,991,415
2017/18	1,378,609	1,279,746	2,658,355
2018/19	1,603,973	1,175,710	2,779,683
Total	5,613,039	4,278,045	9,891,084

The amount spent on relief non-teaching staff was not identifiable.

2. Main Findings

2.1 *Payment of relief school staff*

The audit objective was partially achieved. Relief teaching staff complete a supply teacher claim (PY15T) form, which shows the date cover provided, location provided and the hours claimed. The PY15T form is also split between short-term supply (1 - 2 days) and long-term supply (over 2 days). A non-teaching timesheet showing similar information is used to pay other relief school staff. Previously both had to be completed, signed and authorised in hard copy. During Covid-19 electronically completed

versions are being accepted, which are authorised or copied to the Head Teacher (HT) on submission.

The PY15T form does not need to be signed by the employee. It requires an authorisation signature only but does not state who this should be e.g. the HT, Depute or another person. No guidance notes are provided on the appropriate authorisation. For 1 (10%) PY15T form it was not possible to identify the authorising officer. The guidance notes included with the non-teaching timesheet state that it must be signed by the employee and be authorised by the HT, Depute or in both their absence a Principal Teacher. 1 (10%) non-teaching timesheet was authorised by an officer that had no authority. (See Action Plan Reference: H1 and M1)

The "class contact" hours recorded on the PY15T form (long-term supply) are uprated by a factor of 1.56 when processed to account for preparation time. 2 (20%) PY15T forms showed 7/6.5 hours "class contact time" per day when the teaching hours were only 5/6 hours per day. They were both paid (including preparation time) for 11/10 hours per day. Both overclaims amounting to 84 hours (£1,225) and 78 hours (£1,075) were subsequently identified by the Schools and are being recovered. These overclaims suggest that employees and authorising officers do not fully understand how preparation time is paid for. (See Action Plan Reference: H1 and M2)

Business Support process the forms/timesheets for payment. An input report is sample checked to confirm the accuracy of the data entered. Whilst this may include high value claims no error/exception reports are produced. 1 (10%) PY15T forms was incorrectly input – instead of 9.09 hours, 856 hours was input. This was not identified as part of the Business Support sample checking. It was identified and corrected by the Payroll Team before the payment was released. (See Action Plan Reference: M3)

No recent guidance has been provided to relief school staff on the reporting of overpayments. Additionally, there is no warning on either the form/timesheet or payslips. (See Action Plan Reference: H1 and L1)

2.2 *Purpose of relief school staffing*

The audit objective was partially achieved. The Education Service Administration & Policy Handbook does not provide detail on the process for engaging relief staff. However, Workforce Planning has previously sent information to HT's on the engagement of relief staffing. (See Action Plan Reference: M4)

Since January 2020, a process was implemented where the ASN Managers must pre-approve all ASN staffing relief cover. Business Support will check that forms/timesheets received are in accordance with the pre-approval before charging their costs to the ASN budget.

For 10 (100%) relief staff (5 teaching/5 ASN) no satisfactory explanation was provided for them being engaged at the same school for longer than 6 months. It is the recognised practice of the National Conditions of Service – the Scottish Negotiating Committee for Teachers (SNCT)- that longer-term supply is provided through a fixed term temporary contract rather than through continuing supply cover. During Covid-19 the Council has paid relief staff for a capped average of their hours worked. This has identified some issues including relief staff claiming for more than 22.5 hours class contact time per week and claiming for preparation time. These issues will be raised with HTs over the next School term. (See Action Plan Reference: M5)

3. **Conclusion**

3.1 The processes for the payment of relief school staff and the engagement of temporary cover are broadly effective. However, some non-compliances have been identified and management should seek to address these important issues through:

- enhanced checking of claims/timesheets to confirm that they are fully completed, properly authorised and accurately processed; and
- analysis of relief staff usage to ensure that they are being engaged for the correct purpose in accordance with the National Conditions of Service.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	Business Support do not know if the supply teacher claim form (PY15T) is approved by the HT, Depute or even by the supply teacher. The PY15T form only states authorisation - no guidance as to whom should authorise. 1 (10%) PY15T forms the identity of the authorising officer could not be identified.	Workforce Planning must revise the PY15T form and the non-teaching timesheet (for iii) so that it provides: i. guidance on its completion including authorisation; ii. guidance on payments for preparation time; and iii. a declaration to confirm that it is a true record of the claimant's hours worked and any overpayments they may receive must be reported.	When a supply teacher is accepted onto the list, they are provided with a letter which details how they should claim for supply hours worked. Due to changes around COVID working, the process for claiming supply hours has moved to electronic forms and guidance has been issued to both supply staff and Head Teachers since August on the points raised. However, actions will be taken to ensure that appropriate guidance is issued to all supply staff on claiming hours and the form will be amended as per iii.	Workforce Planning and Staffing Manager & Business Support Team Leader	31/01/21
M1	Medium	1/10 non-teaching timesheet was authorised by an Administration Co-Ordinator that had no authority to certify timesheets.	Business Support should be instructed to only accept timesheets that have been certified by officers with the appropriate authority. (see also H1i)	This discussion has been held with business support and a reminder will be sent to schools.	Workforce Planning and Staffing Manager & Business Support Team Leader	31/01/21
M2	Medium	The "class contact" hours recorded on the PY15T form (long-term supply) are uprated by a factor of 1.56 to account for preparation time. 2 (20%) PY15T forms showed 7/6.5 hours "class contact time" per day when the school teaching hours were only 5/6 hours per day. They were both paid (including preparation time) for 11/10 hours per day. Both overclaims were subsequently	Business Support should seek to identify any invalid claims received and return the claim form to the claimant before payment. (see also H1ii)	Following the payment of average hours over lockdown and the school closure period, the service had identified this as an issue. Instructions were issued to supply staff and Head Teachers with regard to claiming class contact time only. Business Support have also been checking and rejecting any claims that exceed normal class contact times this has	Workforce Planning and Staffing Manager & Business Support Team Leader	31/10/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		identified by the School and are being recovered.		resulted in a marked change in the claims received.		
M3	Medium	1 (10%) PY15T form was incorrectly input – instead of 9.09 hours 856 hours was input. This was identified after the payment file was sent to Payroll but before the payment was made.	Workforce Planning should implement additional input controls and exception reports to identify any erroneous data entries.	All claim forms are processed by business support. A discussion has been held and it has been agreed that a check of 10% of hours will be made for input errors before the CSV file is submitted to payroll.	Business Support Team Leader	31/01/21
M4	Medium	The Education Service Administration & Policy Handbook does not provide detail on the process for engaging relief staff. However, Workforce Planning has previously sent information to HT's on the engagement of relief staffing.	Workforce Planning should provide guidance and training (on-line or face to face) to Schools on the processes for obtaining relief cover to make it clear that this should be used to cover temporary absences with other solutions being used where absences become prolonged.	On-line training was delivered to newly appointed Head Teachers on 18 November by the Workforce Planning and Staffing Manager. The slides used are also being made available on a SharePoint site where Head Teachers can access management information and resources.	Workforce Planning and Staffing Manager	30/11/20
M5	Medium	It is a requirement of the National Conditions of Service – the Scottish Negotiating Committee for Teachers (SNCT) that longer-term supply is provided through a fixed term temporary contract and not through continuing supply cover. No explanation was provided for 10 (100%) relief staff providing supply cover to the same School for more than 6 months.	Workforce Planning should routinely identify excessive use of temporary relief cover, seek explanations and make use of alternative staffing solutions (fixed term contracts) where applicable.	A reminder was issued to Head Teachers at the start of this school session that any supply teacher undertaking a long-term commitment should be provided with a temporary contract rather than continuing to claim on forms as per national conditions of service. Consideration will be given as to how this could be monitored with the assistance of business support who process the forms, it should be noted that this will be challenging in terms of workforce capacity.	Workforce Planning and Staffing Manager & Business Support Team Leader	31/01/21
L1	Low	No guidance has been provided to relief school staff on the reporting of overpayments.	Payroll consider the inclusion of reminders on payslips to advise all employees (including school staff) that it is their	A message will be included on the front page of MyView within the 'Welcome' section: Employees should check their	Assistant Payroll & Pensions Manager	31/12/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		There is no warning on either the claim form or the payslip.	responsibility to check that their pay is accurate and to report any overpayments they may have received. (see also H1iii)	payslip is accurate and in line with your contract and that any claims that have been submitted have been paid correctly.		



Internal Audit Final Report

Infrastructure and Environment

Review of Covid-19 Grants

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	0

Distribution:

Executive Chief Officer of Infrastructure and Environment
 Executive Chief Officer of Resources and Finance
 Head of Development and Regeneration, Infrastructure and Environment
 Economy and Regeneration Manager, Infrastructure and Environment
 Revenues Manager, Resources and Finance
 Finance Manager (Corporate Finance, Treasury & Taxation), Resources and Finance

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls that put some of the system objectives at risk.

Report Ref: HTE05/003
Draft Date: 11/02/2021
Redraft Date: 16/03/2021
Final Date: 19/03/2021

1. Introduction

- 1.1 The audit considered the effectiveness of the Council's Covid-19 grant processes. The audit objectives were to assess the processes: for businesses to apply; to identify eligible applicants; and to promptly pay eligible applicants the correct grant.
- 1.2 The Council needed to work at pace to design, build and operate the grant scheme which is the third largest in Scotland by value and number of eligible businesses. There were further challenges in delivering the scheme in the early days due to issues with IT reliability and the newly created grants team working at home.
- 1.3 The review considered the Council's administration of the Scottish Government's Covid-19 national grant schemes between April and September 2020. Audit testing involved a sample of 13 Business Support Fund Grants (including small business, retail, hospitality & leisure and tenant occupiers), 5 Self-Catering Grants, one Newly Self-Employed Grant and one Bed & Breakfast Grant, which were all recorded on four SharePoint databases.
- 1.4 As at August 2020 total COVID-19 grant payments amounted to £74.4m:

Grant Scheme	Number of Transactions	Total Value (£000s)
Business Support Fund	4,819	53,323
Self-Catering	2,150	19,889
Newly Self-Employed	343	670
Bed & Breakfast	167	501
Total	7,479	74,383

2. Main Findings

2.1 Grant application process

The audit objective was substantially achieved. In 3 (15%) cases the evidence that the Scottish Government (SG) recommended to support the grant application was not obtained. However, the SG

Grant Guidance states that "in exceptional cases where applicants are unable to provide specific items of supporting evidence, officers may accept alternatives in line with the guidance, but in doing so must be satisfied with the integrity of the application as a whole. This means that the combination of other supporting evidence supplied must provide a convincing picture of an applicant with a legitimate claim". In each of these 3 cases there was no evidence to fully explain how the application was assessed as being legitimate. (See Action Plan Reference: M1)

2.2 Applicants are identifiable and eligible

The audit objective was partially achieved. Stage 1 of the grant application process would involve checking a bank statement, which would be used to pay the grant. 1 (5%) grant, which was received on 22/04/2020 was paid to a named bank account – applicant's stated maiden name - that was different to the name of the grant applicant and the name of the rate payer for the property. (See Action Plan Reference: H1)

In 4 (20%) cases the SG recommended eligibility checks had not been undertaken. The SG Grants Guidance (see 2.1, above) allows officers to consider other evidence in assessing the eligibility of each claim. However, in each of these 4 cases there was no evidence to fully explain how the claimant was assessed as being eligible. (See Action Plan Reference: M1)

2.3 Genuine applicants receive correct grant payments

The audit objective was partially achieved. There was segregation of duties between the teams undertaking the stage 1 and stage 2 eligibility checks, grant payment preparation (stage 3) and grant payment authorisation (stage 5). At the outset it was not possible to identify the officer undertaking the stage 1 check. This was noted by the Grants team in mid-April and a process established to ensure that stage 1 processing could be traced back to a named processor either by SharePoint or email. We were unable to identify the officer undertaking the stage 1 check in 5 (38%) cases received after mid-April. (See Action Plan Reference: M2)

General ledger codes were created to record, monitor and control COVID-19 grant payments. The amounts recorded in the SharePoint databases were fully reconciled to the payments

recorded on the COVID-19 general ledger codes within Integra on 18 August 2020 only. (See Action Plan Reference: M3)

3. Conclusion

3.1 In March 2020 the Council was required to assess, process and pay Covid-19 grants at relatively short notice with the overall objective of providing immediate financial support to local businesses. The Council's Economy and Regeneration Team had to devise and develop new systems and processes to achieve this objective. Whilst these processes are considered effective, the audit identified some examples where these have not always been complied with.

The Team received 1,700 applications on the day that the first scheme was launched. Additional staffing resources were trained and supported by the core team of 4 staff whilst it continued to receive approximately 100 applications per day, correspondence from existing applicants and advice/guidance from the Scottish Government on existing and new grant schemes.

We have identified 4 recommendations that are designed to help and assist the Team in the administration and control of future grant schemes.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	All grant applicants provide a bank statement to confirm their identity, which will also reduce the likelihood of fraud. However, 1 (5%) grant was paid to a named bank account that was different to the name on the grant application and the name of the rate payer for the property. Whilst the Grants Team was assured by other aspects of the grant application the explanation was not recorded.	The Grants Team must seek additional evidence (Photocard driving licence or passport) to confirm the identity of the grant applicant when the payment details are different from the applicant/rate payer.	Businesses and named account holders do not neatly follow consistent naming conventions. A series of steps are therefore taken to seek to first match bank details to the nominated business/personal bank account at assessment stage rather than introducing delay and seeking additional information from applicant. If this is not possible, processing delay is accepted, and further information sought. Random sample compliance is also in place to review/check that this process being followed and if not to highlight for action to the Processing Team.	Economy and Regeneration Manager	Immediate
M1	Medium	3 (15%) cases the supporting evidence for the grant applications recommended by the SG was not received and in 4 (20%) cases the SG recommended eligibility checks had not been undertaken. In each case there was no evidence of the alternative information/checks undertaken to ensure the integrity of the application.	Where the Grants Team has chosen to exercise their discretion when accepting and assessing evidence in support of a grant application a suitable justification entry should be recorded in the SharePoint comments section for the grant.	The established process is that assessing staff should add comments to the SharePoint site to explain any exercise of discretion and that overall integrity of application sound. Random sample compliance is also in place to review/check that this process being followed and if not to highlight for action to the Processing Team.	Economy and Regeneration Manager	Immediate

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M2	Medium	There is a clear segregation of duties between the officers undertaking each stage of the COVID—19 grant process. However, we were unable to identify the officer undertaking the stage 1 check in 5 (38%) cases received after mid-April.	The Grants Team should include a mandatory field on the SharePoint site, which identifies the officer that has undertaken the Stage 1 checks. This should be added for any future grant schemes.	The established process should record the Stage 1 processing officers name at email account level and when the application file is uploaded to SharePoint. Random sample compliance to be established to review/check that this process being followed and if not to highlight for action. Review to ensure compliance by end March 2021	Economy and Regeneration Manager	Immediate 31/03/21
M3	Medium	The Integra general ledger codes, which were used to account for business grants, self-catering grants, bed & breakfast and newly self-employed grants were reconciled to the four SharePoint databases on 18th August 2020 only.	Finance should ensure that regular (monthly) reconciliations are undertaken to confirm that only agreed COVID-19 grant payments have been paid and recorded in the general ledger.	Processes to be reviewed to identify possible improvements in the context of system controls currently in place.	Finance Manager (Corporate Finance, Treasury & Taxation)	31/05/21