

Item: 6.2

Monitoring and Audit Committee: 17 February 2022.

Internal Audit Report: Members' Expenses and Allowances.

Report by Chief Internal Auditor.

1. Purpose of Report

To consider internal audit report on procedures and controls relating to members' expenses and allowances.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken an audit of procedures and controls relating to members' expenses and allowances.

2.2.

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to procedures and controls in place within the Council in relation to members' expenses and allowances.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

Scottish Ministers are responsible for determining councillors' remuneration, allowances and expenses, through regulations made under the Local Government (Scotland) Act 1973 and the Local Governance (Scotland) Act 2004.

3.2.

Detailed guidance was issued by the Scottish Government in April 2010 on the content and implications of the regulations. This guidance is updated annually on the Scottish Government website.

3.3.

The objective of this audit was to confirm that members' expenses and allowances are processed in compliance with legislation and associated Scottish Government guidance, that processes over the reimbursement of expenses claimed by members follow good practice of controls and that members' expenses are reported accurately, timeously and in compliance with legislative requirements.

4. Audit Findings

4.1.

The audit provides substantial assurance that the processes and procedures relating to members' expenses and allowances are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes two low priority recommendations within the action plan. There are no medium or high-level recommendations made as a result of this audit.

4.3.

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

Andrew Paterson, Chief Internal Auditor, extension 2107, email andrew.paterson@orkney.gov.uk.

Peter Thomas, Internal Auditor, extension 2135, email peter.thomas@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Report: Members' Expenses and Allowances.



Internal Audit

Audit report

Members' Expenses and Allowances

Draft issue date: 13 January 2022

Final issue date: 26 January 2022

Distribution list:	Head of Executive Support Democratic Services Manager
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

Our audit confirmed that there are robust procedures in place for the administration of councillors' expenses, and testing carried out found that controls are in place and working well, with several areas of good practice evident. For example:

- The Councillors' record of claims for 2020/21 was prepared accurately and comprehensively. The record of claims was published timeously and in the opinion of internal audit, with clarity and transparency.
- Councillors' fees and allowances are paid in accordance with the rates set by the Scottish Government.
- Councillors' expense claims are prepared providing suitable explanations of why the expenditure was necessary and provide adequate supporting documentation to the expenditure incurred.
- All Councillor expenses are thoroughly scrutinised by Officers before reimbursement is made. All Councillor expenses reimbursed were within the maximum limits which are set out within the Council's travel policy.

The number and priority of the recommendations are set out in the table below. The priority of the headings assist management in assessing the significance of the issues raised. There are two low-level recommendations made as a result of our review.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
2	0	0	2

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

Scottish Ministers are responsible for determining councillors' remuneration, allowances and expenses, through regulations made under the Local Government (Scotland) Act 1973 and the Local Governance (Scotland) Act 2004.

The Local Government (Allowances and Expenses) (Scotland) Regulations 2007, as amended, relate to the reimbursement of expenses incurred by councillors in carrying out Council business.

Detailed guidance was issued by the Scottish Government in April 2010 on the content and implications of the Regulations. This guidance is updated annually on the Scottish Government website.

Our review was carried out over a period of continued travel restrictions, due to the COVID-19 pandemic. Councillor expenses incurred during the current financial year have remained significantly lower in total than pre-pandemic norms.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Scope

The scope of this audit includes a review of the following:

1. That members' expenses and allowances are processed in compliance with legislation and associated Scottish Government guidance.
2. That processes over the reimbursement of expenses claimed by members follow good practice of controls.
3. That members' expenses are reported accurately, timeously and in compliance with legislative requirements.

Audit Findings

1.0 Processes

- 1.1 All Councillors' expenses and allowances during the period of review, from 1 April to 31 December 2021 were processed in compliance with the Local Government (Allowances and Expenses) (Scotland) Regulations 2007, as amended ("the Regulations"), and associated Scottish Government guidance.
- 1.2 All reimbursement of Councillors' expenses followed good practice, including effective scrutiny.
- 1.3 The regulations require that "All Councils must publish information on Councillors' salary, allowances and expenses in respect of the previous financial year on their website by 1 June each year. In publishing this information, Councils should ensure that the information is transparent and easily accessible to the public. In this regard, signposting the information on the front page of the website is helpful".
- 1.4 The Council published Councillors' salary, allowances and expenses timeously for the 2020/21 financial year on 1 June 2021. The publication was signposted on the front page of the Council's website and notifications sent to the local media.
- 1.5 There are a few areas, where the published report does not follow the recommendations of Scottish Government guidance, these are detailed at 1.6 to 1.9 of this report. Internal Audit considers each of these as minor divergences from recommended guidance.
- 1.6 The Scottish Government guidance states that "For Councillors who are also members of joint boards, where the Council chooses to publish all expenses claimed by that Councillor, separate entries should be included for expenses relating to the member's service on the joint board and that exclusively on Council related business".
- 1.7 The Council's published report includes a narrative of some Councillors' roles to the Integration Joint Board and also the Orkney and Shetland Valuation Joint Board, but it does not separate expenses between those relating to joint boards and those relating exclusively to Council business.
- 1.8 Guidance also recommends that "other travel" should be divided into 2 columns, the first of which should relate to those claimed by and reimbursed to the Councillor and the second, to those met directly by the Council.
- 1.9 Guidance further requires that subsistence costs are sub divided into 2 columns, one relating to accommodation costs and the other relating to meals.
- 1.10 It is recommended that the format of the Councillors' record of claims report is compared to guidance notes provided by the Scottish Government and consideration given over whether the format of the Councillors' record of claims report should be updated.

Recommendation 1

- 1.11 The review found that in some instances VAT was not being reclaimed from HMRC through the Council's VAT returns where it would be allowable to do so.

1.12 The identifying of VAT on completion of Councillor expenses claim forms does not form part of the Council's Remuneration, Allowances and Expenses Guidance for Councillors.

1.13 It is recommended that Councillors are provided with guidance, and the team processing Councillor expense reclaim forms are trained to identify where VAT may be reclaimed on Councillors' expenses.

Recommendation 2

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1. The format of the Councillors' record of claims report should be compared to guidance notes provided by the Scottish Government and consideration given over whether the format of the report be amended.	Low	Recommendation Agreed. The format of the Councillors' record of claims will be considered and amended where appropriate to align with Scottish Government guidance notes.	Democratic Services Manager.	1 April 2022
2. Councillors should be provided with guidance, and the team processing Councillor expense reclaim forms are trained, to identify which expenses VAT may be reclaimed.	Low	Recommendation Agreed. Councillors will be provided with guidance and Staff will be trained in respect of expenses eligible for VAT reclamation.	Democratic Services Manager.	1 April 2022

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.