

Item: 11

Monitoring and Audit Committee: 25 September 2025.

Internal Audit – Heat and Energy Efficient Scotland: Area Based Scheme.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The internal audit plan 2025/26 includes a review of the Council's management of the Heat and Energy Efficient Scotland: Area Based Scheme, this audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Council receives funding from the Scottish Government to assist homeowners, private sector tenants and landlords to improve the energy efficiency of their homes. Under the Heat and Energy Efficient Scotland: Area Based Scheme, funding can be awarded for a number of energy efficiency measures.
- 1.3. Warmworks Scotland LLP have been appointed by the Council to manage the initiative.
- 1.4. The objective of this audit was to review the arrangements with Warmworks Scotland LLP and the process followed for the awarding and payment of grants under the scheme.
- 1.5. The audit provides Substantial assurance that procedures and controls relating to the Council's management of the Heat and Energy Efficient Scotland: Area Based Scheme are well controlled and managed.
- 1.6. The internal audit report, attached as Appendix 1 to this report, includes one low priority recommendation regarding the Council's monitoring and oversight of the contract.

2. Recommendations

2.1. It is recommended that members of the Committee:

- i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, reviewing arrangements with Warmworks Scotland LLP and the process followed for awarding and payment of grants under the Heat and Energy Efficient Scotland: Area Based Scheme, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

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

Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations and to review actions taken on recommendations made, is a referred function of the Monitoring and Audit Committee.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit reporting.
6. **Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of Internal Audit reporting.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - ☐ Growing our Economy.
 - ☐ Strengthening our Communities.
 - ☐ Developing our Infrastructure.
 - ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - ☐ Cost of Living.
 - ☐ Sustainable Development.
 - ☐ Local Equality.
 - ☐ Improving Population Health.

9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2025/26.

Appendix

Appendix 1: Internal Audit Report – Heat and Energy Efficient Scotland: Area Based Scheme.



Internal Audit

Audit Report

Heat and Energy Efficient Scotland: Area Based Scheme

Draft issue date: 15 August 2025

Final issue date: 15 September 2025

Distribution list:	Director of Education, Communities and Housing Head of Community Learning, Leisure and Housing Service Manager (Resources) Team Manager (Housing Strategy, Development and Data) Fuel Poverty Officer
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Contents

Audit Opinion	1
Executive Summary	1
Introduction	2
Audit Scope.....	2
Audit Findings	3
Action Plan.....	7
Key to Opinion and Priorities.....	8

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

In the 2024/25 funding year, there have been 106 energy efficiency upgrades completed for participating households as part of the Heat and Energy Efficient Scotland: Area Based Scheme (HEES:ABS). The claims submitted in relation to these and the administration costs allocated, have resulted in a total expenditure that represents 98.17% of the total Scottish Government allocation agreed.

Our audit provides assurance that the current managing agent system in place ensures the effective delivery of the HEES:ABS. This is supported by established processes and a strong working relationship between Council Officers and the Managing Agent.

Areas of good practice identified during the audit include:

- A detailed control spreadsheet used by the Fuel Poverty Officer to track and monitor the progress of the scheme.
- Evidence retained to support client eligibility.
- Clarity on pricing for energy efficiency works.
- Shared access to the Managing Agent's live system which tracks the workflow process for each client.
- Approval for grant award letters sought from the Fuel Poverty Officer for each application.

There are identified opportunities to enhance quality assurance reporting on post-installation processes.

The report includes one recommendation which has arisen from the audit. The priority of the recommendation is set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed action via the Ideagen Risk Management system.

Total	High	Medium	Low
1	0	0	1

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

Introduction

The Council receives funding from the Scottish Government to assist homeowners, private sector tenants and landlords to improve the energy efficiency of their homes. Under the Heat and Energy Efficient Scotland (HEES): Area Based Scheme (ABS), funding can be awarded for a number of energy efficiency measures. Warmworks Scotland LLP has been appointed by the Council to manage the initiative.

This review was conducted in conformance with the Global Internal Audit Standards in the UK Public Sector.

Audit Scope

The audit scope included:

- To confirm that there are documented procedures in place for the awarding and payment of grants under the scheme.
- To confirm that there is a contract in place between the Council and the local delivery partner for the implementation of the scheme.
- To review the conditions of the contract and confirm that these are being met by both parties.
- To confirm that household surveys are carried out and an applicant's entitlement to grant is determined in accordance with procedures.
- To confirm that the local delivery partner maintains individual client files with evidence of property survey and assessment, award eligibility letters and contractor quotes.
- To confirm that the local delivery partner undertakes post installation Energy Performance Certificates (EPCs) on all installations and post inspects 20% of all completed work to individual properties in accordance with the contract. To confirm that the Council also post inspects a sample of all completed works.
- To confirm that there is a process in place for the local delivery partner to submit claims to the Council and for claims to be submitted to the Scottish Government for the grant funding.

Audit Findings

1.0 Documented Procedures

- 1.1 There are written procedures in place which set out the process for the awarding and payment of grants under the scheme.
- 1.2 The procedures in place provide assurance that duties relating to the awarding and payment of grants are appropriately segregated.

2.0 Contract

- 2.1 There is a detailed, signed contract in place between the Council and the Managing Agent which has been extended as per the terms of the agreement. A procurement process will be undertaken later in 2025 for a new contract due to start in 2026/27.
- 2.2 Following an application to the Scottish Government undertaken by the Council, a formal offer of funding is received which provides the local HEES:ABS allocation for the year. For the 2024/25 project year, this has been signed by both parties. The level of delivery of the scheme is based on this funding.

3.0 Implementation of the Scheme

- 3.1 Surveys are carried out for all households who apply for grant funding. These determine an applicant's entitlement.
- 3.2 Individual client files are maintained which contain evidence of property survey and assessment. A sample of 12 client files (11.3% of all households with completed upgrades within 2024/25) were tested against eligibility criteria and all were found to have evidence of eligibility saved on the system along with calculations which assessed the level of fuel poverty experienced. Pre-install EPCs were used to assess the energy efficiency of the home and these were also included on the system as evidence.
- 3.3 Where an applicant meets the eligibility criteria, an offer of grant letter is drafted which details the improvement works planned and any householder contribution required (where the cost of the works is higher than the maximum grant permitted). Before this is sent to the client, the letter as well as the client file is reviewed by the Council's Fuel Poverty Officer who, if conditions are correct, provides approval.
- 3.4 All grant offer letters saved within the individual client files have been signed by the client, which indicates approval to move forward with the installation.
- 3.5 Client files include cost calculations for the improvement measures identified as well as the maximum permitted grant for each household under the scheme. There is a set price schedule which dictates the cost of works.
- 3.6 In order to monitor the progress of the scheme and track the individual cases benefitting from improvement works, the Fuel Poverty Officer maintains a control spreadsheet. This supports oversight of the scheme in terms of spend as well as upgrades planned and completed.

3.7 All installations met the deadline for funding.

4.0 Monitoring and Evaluation

4.1 The Scottish Government sets out delivery guidance which includes requirements for a proposal on monitoring and evaluation which is funded from the enabling element of the budget. The enabling element represents 20% of the total scheme cost and can be used for administrative purposes.

4.2 As part of monitoring and evaluating the contract, a review meeting was held in September 2024 between Warmworks and the Council involving Senior Management to discuss the 2023/24 delivery. A presentation reported the outcome figures for the year including:

- Number of energy efficiency improvements.
- Average increase of SAP (standard assessment procedure) rating which was benchmarked against other Councils on the mainland as well as the national scheme.
- Percentage of households within the least energy efficient bandings.
- Tonnes of CO2 saved through improvements installed.
- Monetary savings achieved for households (on average).
- Key achievements and spend position for the 2024/25 year to date.
- Challenges and priorities.

4.3 There are regular meetings and near-daily contact between the Council and Warmworks.

4.4 The frequency of contact is an enhancement of the monitoring requirements set out in the contract (monthly reporting and monthly meetings). The Fuel Poverty Officer also has live access to Filemaker, the Managing Agent's system for recording and tracking progress against the scheme. The content of the live system was observed through sample testing and we judge it to provide a good overview of the progress of applications, awards and works.

4.5 Within the contract, it specifies that the Council would also be undertaking inspections during and after measures are installed through a Council Clerk of Works or other suitably qualified persons who may be employed by the Council which reflects current Scottish Government ABS Programme Guidance. This would form another layer of quality assurance measures already in place with the Managing Agent through its own processes and through external agencies.

4.6 Due to staffing capacity, the quality assurance measures planned have not been undertaken by the Council however the procurement of an external consultant to undertake this work is being explored. As a solution is being actively investigated, there is no recommendation being made here.

5.0 Quality Assurance

5.1 The monitoring in place covers the progress of delivery, accuracy of claims made and assurance of client eligibility. In terms of quality assurance, there are indications that post-

inspections and client satisfaction questionnaires are carried out by the Managing Agent on the live system.

- 5.2 As part of the contract, in addition to the service specification developed by Council officers, the form of tender submitted by the Managing Agent included a number of aims to support reporting and performance management. Although these have not been requested as part of the current reporting in place, they are available to the Council on request and will be required for review during the planned contract end period.
- 5.3 These include the results of quality assurance activities undertaken by the Managing Agent which we requested for the audit:
- Work-in-Progress inspections (part of a commitment to ensuring all health and safety regulations are adhered to). Inspections undertaken in 2024/25 identified no health and safety issues but led to improvements via specialist contractors.
 - Performance framework to assess sub-contractors. Sub-contractor performance is managed via remote communications and photographic evidence.
 - Customer survey results. These were collated and analysed for 2024/25. Of 108 completed applications, 76 questionnaires were completed. The majority of customers were very happy with their experience, the quality of work and communication. The Managing Agent actively follows up on feedback where required.
- 5.4 The Managing Agent has a comprehensive complaints management system in place. Only if this process has been exhausted would the Council's Complaints Procedure be used. We confirmed that this has never been necessary within the previous five years and there were no complaints logged with the managing agent in 2024/25.
- 5.5 A requirement of the contract is for the Managing Agent to carry out post-installation EPCs on all installations and inspect 20% of works. Post-installation inspections had been carried out in 50% of the cases within our sample which surpasses requirements.
- 5.6 The Managing Agent reported that of the 106 completed households, 41 have had an inspection, representing an overall inspection rate of 38%. These passed the inspection first time.
- 5.7 Post-installation EPCs had been carried out in 50% of the sample which demonstrated the impact of the works undertaken. Reasons were given which explained why some of the post-installation EPCs had not been carried out.
- 5.8 Adjusting for valid exclusions (e.g. change in standard assessment procedure, ongoing installations), the effective completion rate reported is 75% as reported by the Managing Agent. This falls short of the 100% target required by the contract however when benchmarked nationally, it outperforms other local authorities in Scotland.
- 5.9 During the audit, the Managing Agent began submitting monthly reports, following a balanced scorecard approach covering:
- Customer Engagement.
 - Installations.
 - Inspections.
 - Monitoring and Evaluation (Total Grant Spend, SAP gain, Carbon Saving and Fuel Bill Saving).

- 5.10 Receiving regular reports on the results of quality control and compliance measures undertaken by the Managing Agent will further enhance the Council's monitoring and oversight of the contract. We recommend that reporting requirements, based on KPIs should be reviewed for the next project year (2025/26) as well as for the next contract in place.

Recommendation 1

6.0 Claims

- 6.1 The local HEES:ABS delivery partner is required to invoice the Council for reimbursement of costs due. Along with invoices submitted is a detailed calculation of how costs have been determined, based on a set pricing schedule. Invoice breakdowns were compared to the price schedule and works undertaken and were found to be accurate.
- 6.2 There is also a process in place for claims to be submitted to the Scottish Government for the grant funding which is operating effectively.

7.0 Reporting

- 7.1 Reporting is required on a quarterly basis to the Scottish Government. A recent quarterly report submitted was reviewed. It met the due date for reporting and contained the required returns spreadsheet and narrative on progress.
- 7.2 Within the contract between the Council and the Managing Agent, reporting requirements are set out in the service specification based on key performance indicators which include:
- Information on the number of EPC and technical surveys that have been undertaken.
 - The number of households that have signed up to the programme.
 - The number of households that have approached HEES:ABS, but who are not eligible.
 - A record of the community benefits achieved as part of the contract.

In addition, the Managing Agent is also required to report on energy savings, incidence of fuel poverty and how it has been affected by the measures installed.

- 7.3 The Managing Agent provides an annual report and helps to provide the data required for Scottish Government reporting. The annual report covers energy savings, CO2 saved, the incidence of properties surveyed that are the least energy efficient and the average rise in SAP score. Community benefits are also reported within the annual report.
- 7.4 The information available on the Filemaker system provides information on pre-installation EPCs and technical surveys as well as the households that have undergone a survey to assess eligibility.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 Receiving regular reports on the results of quality control and compliance measures undertaken by the Managing Agent would further enhance the Council's monitoring and oversight of the contract. We recommend that reporting requirements, based on KPIs should be reviewed for the next project year (2025/26) as well as for the next contract in place.	Low	Monthly reports / balanced scorecard now underway and received from Managing Agent. Further discussions to develop additional metrics are planned.	Fuel Poverty Officer	31 October 2025

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 significant 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.