



Audit Committee
Policy & Resources Committee
Shetland Islands Council

18 June 2014
23 June 2014
2 July 2014

Assurance and Improvement Plan Update 2014-17

Report No: IP-11-14-F

**Report from: Executive Manager -
Performance and Improvement**

Corporate Services

1.0 Summary

- 1.1 This report enables the Council's External Auditors to present the "Shetland Island Council – Assurance and Improvement Plan (AIP) Update 2014-17" (Appendix 1). Audit Scotland will be in attendance to present the report.

2.0 Decision Required

- 2.1 The Audit Committee should consider this report within their remit and highlight any issues that they feel should be monitored or further addressed through this Committee, one or more other Committees of the Council or by Council Management.
- 2.2 The Policy and Resources Committee should consider this report within their remit and highlight any issues that they feel should be monitored or further addressed through this Committee, one or more other Committee of the Council or by Council Management.
- 2.3 The Council should note the contents of this report and any comments from Audit and Policy and Resources Committees.

3.0 Comments on Content

- 3.1 Overall the 2014-17 AIP confirms steady progress by the Council across the full range of Best Value areas required for sound and effective organisational management. There are now no areas characterised as "scrutiny required" compared to Shetland Islands Councils 8 "Red Cards" in 2010 (Appendix 2).
- 3.2 At the same time Service delivery performance has continued to be sound with almost all service areas achieving the "no scrutiny required

status". That includes significant new developments in Police and Fire arrangements and Health and Social care integration.

- 3.3 There remain however areas where the Local Area Network (LAN) feel there is some uncertainty. In the area of Housing they noted that the Council is still working towards the Scottish Housing Quality Standard and Audit Scotland will continue to monitor the progress of this, as well as progress made by the council since the scrutiny work performed by the Scottish Housing Regulator.
- 3.4 The AIP acknowledges that the Council has made good progress during the year in developing its performance management arrangements as part of its Planning and Performance Management Framework. The Council revised its Standing Orders during 2013 although risk management arrangements are continuing to develop. On this basis, the LAN has concluded that no specific scrutiny is required in relation to performance management and governance and accountability, but risk management is an area where further information is required in relation to the corporate risk register.
- 3.5 It was reported that in terms of asset management, the Council has agreed a five year investment plan totalling £51.6 million, of which £23.5 is to be funded from reserves. The main development planned for the period to 2017 is the new Anderson High School. The expected cost of the school is £42 million, £28 million of which is being contributed by the Scottish Government. The Council is currently considering external borrowing to fund this project. As this is such a substantial development for Shetland, the LAN has continued to assess asset management as an area for which further information is required.
- 3.6 The AIP states that in the area of procurement, in 2012, internal audit highlighted a number of issues of non-compliance with Standing Orders and a possible breach of EU Regulations. A follow-up exercise by internal audit in January 2014 has highlighted the same weaknesses regarding non-compliance. As previously reported to Audit, parts of the Council need to improve procedures within procurement to ensure that there is full compliance with Standing Orders and other regulations. This area has been assessed as further information required.
- 3.7 In addition to the above, the LAN has assessed financial management, people management, information management, joint working, efficiency, equalities, education, social care services and non-regulated services as 'no scrutiny required'.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The accompanying report is an external opinion on whether the Council is delivering on its established Corporate Priorities.

4.2 Community /Stakeholder Issues – NONE

4.3 Policy And/Or Delegated Authority

4.3.1 The Council's constitution – Part C - Scheme of Administration and Delegations specifies that the remit of the Audit Committee includes responsibilities to;

- To promote good performance management practice within the Council;
- To assess the effectiveness of the Council's Performance Management System by reviewing outputs from the system and overview key performance indicators;
- To consider a selection of performance and inspection reports from internal audit, external audit and other relevant agencies;
- To review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;
- To comment on the effectiveness of the Planning and Performance Management Framework (PPMF), systems and processes; and
- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans for performance work to be undertaken by both external and internal audit.

4.3.2 The Council's constitution – Part A - Governance - specifies the Policy & Resources Committee as the managing body for many of the key plans and strategies commented upon in the AIP including the Council's Corporate Plan Budget, Planning and Performance Management Framework, HR Strategy, Asset Management Strategy, Risk Management Strategy.

4.4 Risk Management – Failure to react to issues identified by the Council's external inspections will risk the Council's reputation.

4.5 Equalities, Health And Human Rights – NONE

4.6 Environmental - NONE

Resources

4.7 Financial – No direct implications

4.8 Legal – No direct implications

4.9 Human Resources – No direct implications

4.10 Assets And Property – No direct implications

5.0 Conclusions

- 5.1 This short report introduces an update on the Council's Assurance and Improvement Plan (AIP), put together by a Local Area Network (LAN) of the Council's main inspection agencies. They provide observations on the performance of the Council which continues to show steady improvement.

For further information please contact:

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6th May 2014

List of Appendices

Appendix 1 - Shetland Island Council – Assurance and Improvement Plan Update 2014-17

Appendix 2 – Shetland Islands Council – AIP Overview 2010 – 2014

Shetland Islands Council

Assurance and Improvement Plan 2014–17

May 2014

Contents

Contents	2
Introduction.....	3
Summary	5
Planned scrutiny activity.....	6
Local priorities and public service reform	8
Community planning and Single Outcome Agreements.....	8
Police and fire	9
Health and social care integration	10
Welfare reform	11
Corporate assessment	12
Service performance	23
Improving and transforming public services / public performance reporting.....	27
Appendix 1: Scrutiny plan.....	30

Introduction

1. This Assurance and Improvement Plan (AIP) sets out the planned scrutiny activity in Shetland Islands Council between April 2014 and March 2017. The AIP is based on a shared risk assessment undertaken by a local area network (LAN). There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.
2. This is the fifth AIP for Shetland Islands Council since the introduction of the shared risk assessment process.¹ It is the result of the shared risk assessment which began in October 2013. The process drew on evidence from a number of sources, including:
 - the annual report to the Controller of Audit and elected members for 2012/13 from the council's appointed external auditors
 - evidence gathered from Audit Scotland, Education Scotland, the Care Inspectorate the Scottish Housing Regulator, and Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) (including published inspection reports and other supporting evidence)
 - the Single Outcome Agreement (SOA) and associated development plan for the council area
 - the council's own performance data and self-evaluation evidence
 - analysis of data from the SOLACE/COSLA/Improvement Service Local Government Benchmarking Framework.²
3. The shared risk assessment process was reviewed in 2013, in the context of a significantly changed scrutiny landscape and the evolving public service reform agenda.³ Based on the findings of the review, this year's shared risk assessment focused on identifying the council's current position in implementing the Scottish Government's reform agenda. It also placed more emphasis on scrutiny risk in relation to the council's improvement and transformation agenda. This change in approach is reflected in the structure of the AIP for 2014-17, which covers four areas:
 - local priorities and public service reform
 - corporate assessment
 - service performance
 - improving and transforming public services/public performance reporting.

¹ Assurance and Improvement Plans for each council since 2010 are available on the Audit Scotland website: <http://www.audit-scotland.gov.uk/work/scrutiny/aip.php>

² The indicators used in the framework can be found on the Improvement Service website: <http://www.improvementservice.org.uk/benchmarking/>

³ The review of the shared risk assessment process was one of four work streams taken forward by the Strategic Group for Local Government Scrutiny Co-ordination during 2013.

4. Scrutiny risk is assessed against the following criteria:
 - No scrutiny required - there are no significant concerns, so no scrutiny work is necessary.
 - Scrutiny required - there are concerns about performance, services or outcomes, resulting in the need for scrutiny work.
 - Further information required - there is insufficient information to reach a judgement about performance.
5. The National Scrutiny Plan for 2014/15 is available on the Audit Scotland website. It provides a summary of planned scrutiny activity across all councils in Scotland, based on the AIPs for each council.

Summary

6. Over recent years Shetland Islands Council faced a range of governance, financial and performance challenges and was the subject of Best Value review work carried out by the Controller of Audit and received for consideration by the Accounts Commission. The council has been focussed on addressing the range of issues raised through its improvement plans and the Accounts Commission has recognised the value of the council's developments in a number of areas. In January 2013, the Accounts Commission Statutory follow-up report found that:
 - *'The council has made good progress on its improvement agenda, but needs to ensure that the wide ranging and ambitious improvement plans are prioritised and managed in a sustainable way so that it has the capacity to deliver on its objectives.'*
 - *'The council will need to take some difficult decisions if it is to deliver its medium-term financial plan. This will be challenging for council staff and the residents of the islands who have been used to providing and receiving a high level and quality of services over recent years.'*
7. The council has continued to respond to these challenges and to make good progress during the year in a range of areas, including developing its performance management arrangements as part of its Planning and Performance Management Framework. The council revised its standing orders for contracts during 2013 and risk management arrangements are continuing to develop. On this basis, the LAN has concluded that no specific scrutiny is required in relation to performance management and governance and accountability, but risk management is an area where further information is required in relation to the corporate risk register.
8. Financial management has been a considerable challenge for the council over a number of years. In particular the council's financial commitments had for some time entailed a continuing draw upon its reserves, which would not have been sustainable in the longer term. However more recent developments have been notably positive and the council has recognised the need to focus on achieving a sustainable financial position. The council's Medium-term Financial Plan sets out how the council plans to reduce the draw on reserves over the next few years so that, from 2017/18, a minimum reserve balance of £150 million is maintained, with future draws on reserves being funded by investment returns. Whilst the council still faces the difficulties of achieving its challenging savings targets, the improvement in the council's planning and focus in this area leads the LAN to categorise this area as no scrutiny required. This will of course remain an area where the local external audit team will continue to monitor and report upon developments in the normal course of their work.
9. The 2013-16 AIP assessed a number of areas as 'further information required'. This included housing, performance management, governance & accountability, asset management and procurement. In the area of housing, the council is still working towards the Scottish Housing Quality Standards (SHQS) and we will continue to monitor the progress of this as well as

progress made by the council since the scrutiny work performed by the Scottish Housing Regulator (SHR).

10. Asset management has been an area of challenge for the council, particularly with the requirement to replace its major educational asset, the Anderson High School. This represents a very significant funding and management challenge for the council, as it represents a very high proportion of its planned capital resourcing and capacity. The council has now agreed a five year capital investment plan totalling £51.6 million, of which £23.5 million is to be funded from reserves. The main development planned for the period to 2017 is the above mentioned new High School, which is expected to cost £42 million, £28 million of which is being contributed by the Scottish Government. The council is currently considering external borrowing to fund this project. As this is such a substantial development for Shetland, the LAN has continued to assess asset management as an area for which further information is required.
11. In the area of procurement, in 2012, the council's internal auditors highlighted a number of issues of non-compliance with standing orders and a possible breach of EU regulations. A follow-up exercise by internal audit in January 2014 has highlighted the same weaknesses regarding non-compliance. The council requires to improve procedures within procurement to ensure that there is full compliance with standing orders and other regulations. This area has been assessed as further information required.
12. In addition to the above, the LAN has assessed people management, information management, joint working, efficiency, equalities, education, social care services and non-regulated services as 'no scrutiny required'.
13. Shetland Islands Council's 2013-2016 Single Outcome Agreement (SOA) was quality reviewed and approved by the Scottish Government. The SOA focuses on eight outcomes each of which has detailed objectives and planned specific actions.
14. The Care Inspectorate, in partnership with the Association of Directors of Social Work and the Risk Management Authority, has been undertaking supported self-evaluation activity to assess the initial impact of the introduction of the assessment and case planning instrument LS/CMI across Scotland's criminal justice social work services. This activity started in June 2013 and will conclude with the publication of a national report by May 2014. Action plans arising from this activity will be implemented in 2014

Planned scrutiny activity

15. The Care Inspectorate will carry out an inspection of children's or adult services in the period January to March 2015.
16. Education Scotland will be reviewing the quality of Careers Information Advice and Guidance services delivered by Skills Development Scotland across all council areas over the next three years.

17. The SHR is continuing to monitor the council's progress towards meeting the SHQS and may carry out follow-up work following the council's planned stock condition survey in June 2014.
18. There is some non-risk based scrutiny activity planned across councils in 2014/15, but where scrutiny bodies are yet to determine which specific council areas will be included. This includes the following:
 - The SHR recently carried out a thematic inquiry into the outcomes that councils are achieving by delivering housing options and prevention of homelessness services. A sample of councils were selected to take part in this as case studies. The findings from this work could potentially lead to further engagement with some councils. The SHR will carry out further thematic inquiries between 2014/15 and 2015/16. If a council is to be involved in a thematic inquiry the SHR will confirm this with the council and the appropriate LAN lead.
 - HMICS will be inspecting local policing across Scotland over the next three years. This will examine, amongst other things, local scrutiny and engagement between Police Scotland and councils. The geographic areas to be inspected during 2014-15 have yet to be determined.
 - Education Scotland will continue to engage with councils for the purpose of validated self-evaluation (VSE). The scheduling of VSEs will be arranged by negotiation between Education Scotland and individual councils.
 - Education Scotland will be working in partnership with councils to carry out self-evaluation of education psychology services over a two year period beginning in 2014/15.
19. Audit Scotland will follow-up two national performance audits during 2014. This will involve targeted follow-up of *Arm's-length external organisations (ALEOs): are you getting it right?* (June 2011) and *Major capital investment in councils* (March 2013). Audit Scotland will also carry out a programme of performance audits during the period of this AIP that will involve work with councils. The performance audit programme for 2014/15 is available at <http://www.audit-scotland.gov.uk/work/forwardwork.php?year=2014>.
20. Scheduled audit and inspection work will take place through the annual audit process and the ongoing inspection of school and care establishments by Education Scotland and the Care Inspectorate respectively will continue as planned. The individual audit and inspection agencies will also continue to monitor developments in key areas of council activity and will provide support and challenge as appropriate. This will also help to inform future assessment of scrutiny risk.
21. A timetable for the planned audit and inspection activity in Shetland Islands Council between April 2014 and March 2017 is at [Appendix 1](#).

Local priorities and public service reform

22. Local councils are operating within a context of significant change as a result of the challenging financial environment and the public service reform agenda. The Scottish Government's reform agenda emphasises the importance of place, people, partnership, prevention and performance in public services. This year's shared risk assessment identified the council's current position in implementing the Scottish Government's reform agenda, specifically in relation to:
- community planning and new Single Outcome Agreements
 - police and fire oversight arrangements (following the introduction of new national police and fire services)
 - health and social care integration
 - welfare reform.

Community planning and Single Outcome Agreements

23. The Shetland Partnership is the Community Planning Partnership (CPP) for the Shetland Islands Council area. Partners are drawn from across the public, private and third sectors in Shetland and have a responsibility to provide strategic leadership and to ensure that they reflect the priorities detailed in the Community Plan within their own organisations. The Shetland SOA is the delivery plan for the Shetland Partnership Community Plan. It has been developed from the community, agency, directorate and service planning activity of local partners and sets out actions to deliver the Shetland Partnership's key objectives.
24. In July 2013 the SOA 2013-2016 was subject to a quality assurance process by the Scottish Government. A number of strengths and areas for development were identified through that process. Following this, a development plan was agreed and the SOA has now been approved by the Scottish Government.
25. The SOA focuses on eight outcomes each of which has detailed objectives and planned specific SMART actions. The eight outcomes are:
- Shetland is the best place for children and young people to grow up.
 - We live longer healthier lives.
 - People are supported to be active and independent throughout adulthood and in older age.
 - Shetland stays a safe place to live. And we have strong, resilient and supportive communities.

- Shetland has sustainable economic growth with good employment opportunities and our people have the skills to match, good places to stay and the transport people and businesses need.
- We have tackled inequalities by ensuring that the needs of the most vulnerable and hard to reach groups are identified and met and that services are targeted at those most in need.
- To deliver all services in an environmentally sustainable manner to safeguard and enhance the outstanding environment which underpins all actions and the economic and social well-being.
- To have financial sustainability and balance within each partner and a better balance between a dynamic private sector, strong third sector and efficient and responsive public services.

Police and fire

26. The Police and Fire Rescue Reform (Scotland) Act 2012 created a national police force and a national fire and rescue service. Local authorities now have the roles of:
 - Commenting on the strategic plans of Scottish Police Authority (SPA) and the Scottish Fire and Rescue Service (SFRS).
 - Contributing to the preparation and subsequent approval of the local plans for police and fire and rescue.
 - Monitoring the delivery of police and fire and rescue functions in the area and making recommendations for improvement.
 - Providing feedback to the local police commander and the fire and rescue service local senior officer.
27. Each of the 14 territorial policing divisions is in the process of consulting with communities on the content and priorities for the policing plan 2014-17. That process will include local authorities who will give final approval of the plans.
28. HMICS conducted a thematic inspection of the new arrangements for local scrutiny in 2013 and believe that the new arrangements for local scrutiny and engagement (LSE) require more time to bed in and that it is therefore too early to assess the effectiveness of these arrangements.
29. In relation to the wider issue of the delivery of community safety, HMICS has seen no significant changes to partnership arrangements since the creation of a single police service model for Scotland. HMICS is considering community safety as a possible area of focus within its 2014-17 work plan.
30. Fire reform is also still at an early stage and HM Fire Service Inspectorate (HMFSI) has not as yet undertaken any detailed examination of the way in which community safety and engagement activities are delivered across local authority areas in Scotland. HMFSI published *An Overview of the Scottish Fire and Rescue Service (SFRS)* in 2013. In its report, HMFSI

highlighted that local senior officers (LSOs), who have responsibility for overseeing partnership working with local authorities in the delivery of community safety and engagement, are clearly sighted on their responsibilities and are keen to make local partnerships work in an effort to optimise community outcomes.

31. The SFRS is consulting on a suite of local fire and rescue plans. HMFSI is not currently proposing any specific scrutiny on local planning and consultation processes, but may consider this in its future inspection plans.

Health and social care integration

32. The management arrangements for community health and care services have devolved through long-standing partnership arrangements between the council and NHS Shetland. Shetland's Community Health Partnership (CHP) was established in 2005 and the reporting lines for community care services and joint future work were linked to the new CHP. In 2007, approval was given for the CHP and joint future management arrangements to be brought together as the Community Health and Care Partnership (CHCP) for Shetland.
33. The CHCP is a joint NHS and council management structure with five posts at service manager level reporting to the director of community health and care who was jointly appointed by the council and NHS Shetland. As lead CHCP officer, the director of community health and care is responsible for the planning, provision and quality of all community care services provided or commissioned by the council and for a range of primary care services on behalf of NHS Shetland.
34. The council and NHS Shetland have jointly prepared a Health and Social Care Integration action plan. Progress against the plan is reported to meetings of the council's Social Services Committee and to NHS Shetland's CHP Committee. The current position based on the report to the council's Social Services Committee in March 2014 was:
 - Governance - this area still requires to be progressed. In June 2013 NHS Shetland proposed governance arrangements that included a Shadow Board. The council, however, voted not to set up a Shadow Board and requested a full appraisal of all four governance models envisaged by the Bill. It is intended that proposals for 2014/15 shadow arrangements and the options appraisal on the integration model will be presented for decision in June 2014. Finance - the local partnership finance team have discussed and agreed a joint approach for setting 2014/15 budgets. Work on the Integrated Resource Framework is complete for NHS budgets and budget information for the council and the voluntary sector has been provided for inclusion in the final analysis. Work has begun to examine the locality based integrated working and associated cost of localities is to be calculated going forward. A project initiation document (PID) for the locality management arrangements has been agreed.
 - ICT - Work is continuing on all aspects of data sharing linking with colleagues at a national level. A Shetland bid for additional resources has been made to the Scottish Government.
 - HR - Recruitment to the post of director of community health and care is complete.

- Innovation and change - action learning sets are being regularly facilitated for CHCP managers to support the localities project.
- Integrated management structures involving third sector partners - a catalyst group has been established with Voluntary Action Shetland (VAS) to support work on commissioning in partnership with the third sector. The Third Sector Compact has been redrafted by VAS and will be taken forward through the Shetland Partnership.

Welfare reform

35. Audit Scotland's Welfare Reform Update report (published May 2013) considers the impact that the government's reforms will have on councils and the public. The report looked to identify how councils are planning for assessing the risk from welfare reforms and whether they have included welfare reform in discussions with community planning partners.
36. The council's corporate risk register was approved in March 2014 but welfare reform is seen as a low to medium risk. There are 14 departmental risks being monitored which are associated with welfare reform.
37. The council is represented on the Financial Resilience Welfare Reform subgroup (a subgroup of the Fairer Shetland Partnership) which has been implementing an action plan to address welfare reform and financial resilience. The council receives regular reports on progress made by this subgroup. There is a welfare reform page on the council's website which provides details on expected changes, contact details and information on resources.
38. The SHR will seek information from all social landlords to monitor the impact of welfare reform. In 2013-14, the SHR surveyed social landlords and published findings on the early impact of welfare reform on rent arrears. It will continue to gather information on rent and arrears through the annual return on the Scottish Social Housing Charter in order to monitor the impact of welfare reform on social landlords and their tenants.

Corporate assessment

39. The following table provides an assessment of scrutiny risk relating to the council's management arrangements (including how it is meeting its Best Value obligations).⁴

Area	Risk assessment	Current position	What we plan to do
Leadership and direction How the council's vision is designed around its knowledge of its local communities and how this is translated throughout all the council's plans and strategies.	Further information required	<p>The Accounts Commission's findings on the Best Value follow-up report in January 2013 noted that "the early indications are that the new political leadership is providing a clear direction for the council". In June 2013 the council reported completion of around 90% of its Improvement Plan actions and agreed to embed further improvement work into the Corporate Plan and the Corporate and Chief Executive directorate plans.</p> <p>This process has continued although there have been some changes to the Senior Management Team - the director of community care left in June 2013 and the director of infrastructure left in September 2013. A director of community health and social care was appointed in December 2013, and there is a two year interim appointee in the role of director of infrastructure. More time is required to allow these changes to bed in and to evidence their impact on leadership and direction.</p>	No specific scrutiny activity, although the local audit team will continue to monitor developments.

⁴ The Local Government in Scotland Act 2003. Best Value Guidance, Scottish Executive, 2004.

Area	Risk assessment	Current position	What we plan to do
Governance and accountability Whether governance arrangements are working effectively and whether good governance underpins council decisions and supports performance improvement.	No scrutiny required	<p>Audit Scotland reported in its Annual Audit Report 12/13 that overall, the council's governance arrangements in 2012/13 were satisfactory although we highlighted that internal audit had reported significant non-compliance with standing orders for tenders and contracts and small contract procedures. A management action plan has been agreed to address this issue and internal audit will follow-up on this report during 2014.</p> <ul style="list-style-type: none"> All departmental risk registers have now been updated and the corporate risk register was approved by the Corporate Management Team (CMT) in March 2014. In January 2013, the Accounts Commission statutory follow-up report found that the council had 'consolidated many of the improvements to its governance and accountability arrangements, including the political management arrangements and agreed a new code of governance.' During 2012/13 the council continued to develop and embed its corporate governance framework The full council, advised by the Executive Committee, has responsibility for overall strategic direction in terms of setting corporate priorities and allocating resources. The full council is supported by a number of standing committees including the Executive Committee, Audit & Standards Committee and four functional committees (Development, Education and Families, Environment and Transport and Social Services.) The CMT receives regular monitoring reports on all areas of the council 	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		<p>to identify and address any issues to ensure that the council meets its agreed objectives.</p> <ul style="list-style-type: none"> The external audit team regularly attends the Audit & Standards Committee meetings and has observed a number of other committee meetings during the year. There is a marked improvement in the way that committee business is run and there is evidence of better decision-making processes by members. The council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees. SIC council meeting 11/12/13 - there was a well structured debate on the proposal to close Skerries Secondary School. 	
Community engagement and empowerment Whether the council is giving local people a greater say in local budget decisions and giving communities a	Further information required	This is a challenging period of change for the council, not only in relation to its plans for more stringent budgetary disciplines (and the impacts that these could have for services) but also in a number of key areas of change. Importantly, proposed school closures and plans for the future on how secondary education will be delivered continue to be contentious and sensitive issues for many local people. The council needs to maintain its focus in these areas of community interest.	No specific scrutiny activity although the local audit team will continue to monitor developments.

Area	Risk assessment	Current position	What we plan to do
right to challenge local public service delivery.		<p>The council continues to have consultation meetings with community residents on areas including:</p> <ul style="list-style-type: none"> • Medium-term financial plan (MTFP) and savings required. • Public transport network redesign. • Education and proposed school closures. • Consequences of Welfare Reform Act. <p>These initiatives are currently ongoing and the local external audit will keep these under review as they develop.</p>	
<p>Financial management</p> <p>How effectively the council is planning and managing its budgets.</p>	No scrutiny required	<p>The council's approach to financial management has shown substantial positive developments over recent years with the removal of the previous qualification of the financial statements in relation to Group Accounts, and the development of the Medium Term Financial Plan, with its focus on reducing commitments and achieving the longer term stabilisation of reserves. This has been recognised and welcomed by the Accounts Commission, although key delivery challenges will remain. In this context, the council's MTFP is helping to ensure delivery of its core objectives and to maintain a minimum reserve balance of £150 million by 2017/18. Similar to other council areas, SIC is facing a considerable challenge to reduce its level of spending. The MTFP requires savings of over £23 million over the next four years. In 2012/13 the council spent £179 million on the provision of public services and had an overall deficit of £18.5 million. After taking account of statutory adjustments, the overall draw on reserves was £21.4</p>	No specific scrutiny activity although the local audit team will continue to monitor developments.

Area	Risk assessment	Current position	What we plan to do
		<p>million which was £5 million less than budgeted.</p> <p>The council's usable reserves at 31 March 2013 totalled £223 million, a decrease of £16 million from the previous year - the council is therefore still relying on reserves to support its expenditure. Although the council is facing a significant challenge, there is evidence that the financial performance of the council is more closely monitored now than in previous years and that members are more aware of the impact that decisions taken not to approve cuts have on the overall financial position.</p> <p>The council does not currently have any borrowings, but this is likely to change in the future due to the construction of the new Anderson High School.</p> <p>The council has been reviewing its investment strategy to ensure that there is full compliance with regulations and that Best Value is achieved from investment managers.</p> <p>The council no longer receives government funding to support the management of its HRA debt of £38.6 million. The council continues to discuss this with the Scottish and UK governments but there is a risk that the council may have to write-off at least a portion of the total debt.</p> <p>The council approved a 2013/14 budget of £133 million which required a draw from reserves of £27.8 million. As at 31 December 2013, the council projected an underspend of £5.6 million for the year to 31 March 2014. The projected outturn draw on reserves equates to a daily overspend of £63,000. This is an unsustainable</p>	

Area	Risk assessment	Current position	What we plan to do
		<p>level and will need to be reduced to ensure that the council's reserves are not depleted further in the short-term.</p> <p>However, given the overall improvement in the council's focus on financial planning and management over the past two years, this is not flagged as an area for planned scrutiny. The local audit team will monitor and report on this area.</p>	
People management The effectiveness of the council's workforce planning and management arrangements.	No scrutiny required	<p>The council continues to develop and implement arrangements to manage its staff. A number of policies and procedures are in place covering staff development, performance management and attendance. A workforce strategy is expected to be approved by December 2014. Staff reviews are conducted for each change programme project to address the impact on the workforce. The HR partnership group meets regularly to help manage staff issues.</p>	No specific scrutiny activity
Asset management The council's arrangements for managing assets and how this key resource is used to support effective service delivery.	Further information required	<p>In March 2012 the council agreed a five year asset investment plan totalling £51.6 million, of which £23.5 million was to be funded from reserves. This included:</p> <ul style="list-style-type: none"> Contractually committed expenditure of £7.5 million. Maintenance programme of £23.8 million. New developments of £20.3 million. <p>The financial plan agreed a new asset investment plan that the council adopt a policy of focussing on only maintaining existing assets (with the exception of Anderson High School and the high-speed broadband installation). The capital programme would therefore be funded mainly from the Scottish Government and</p>	No specific scrutiny activity although the local audit team will continue to monitor developments.

Area	Risk assessment	Current position	What we plan to do
		<p>capital receipts and this would reduce the draw on reserves by around £5.6 million per year. Any new asset requiring a draw on reserves is subject to an investment appraisal process.</p> <p>As at 31 December 2013, the council reported that the Asset Investment Plan is projected to be under budget by £598,000.</p> <p>In October 2013, the government appointed building consortium, Hub North Scotland, announced that it had been approved to design and build a new Anderson High School and hall of residence. The council has set aside £14 million to fund the project and the Scottish Government is contributing £28 million. The council does not currently have any borrowings but is considering external borrowing to fund this project.</p> <p>As these significant asset plans constitute such a substantial development for Shetland, the LAN has continued to assess asset management as an area for which further information is required. The local audit team will monitor and report on this area.</p>	
Procurement How effectively corporate procurement contributes to the council maximising value for money in the	Further information required	In 2012, internal audit highlighted significant non-compliance with standing orders and a possible breach of EU regulations in the area of procurement within ferries operations. A follow-up by internal audit in January 2014 has highlighted the same significant issues regarding non-compliance. Disclosure of these weaknesses will be required in the council's 2013/14 governance	No specific scrutiny activity although the local audit team will continue to monitor developments, including in relation to progress on PCA scoring

Area	Risk assessment	Current position	What we plan to do
goods and services it uses to deliver its services.		statement including details of the management action being taken to reduce the risk of reoccurrence.	
Risk management The effectiveness of the council's arrangements for identifying, managing and mitigating risks and how its management of risk contributes to the successful delivery of public services.	Further information required	As part of its governance and management processes, the council continues to develop its risk management arrangements. Departmental risk registers have been established but further work is required to ensure an effective and consistent approach to risk management across the council. This includes identifying risks at an appropriate level; and ensuring departmental risk registers are regularly reviewed and updated. The corporate risk register was approved by the Corporate Management Team in March 2014.	No specific scrutiny activity although the local audit team will continue to monitor developments.
Information management The effectiveness of the council's arrangements for managing information as a key resource in delivering services.	No scrutiny required	The council's ICT Strategy for the period 2013-18 has been approved. This covers the following areas of work: <ul style="list-style-type: none"> • PCs • Schools ICT • SPSNet (Shetland Public Service Network) • Photocopiers The ICT strategy aligns with national strategy, the council's corporate plan and the council's improvement plan which has now been subsumed into the corporate plan. The main project for 2013/14 is the replacement of the pathfinder links to maintain council network connections to premises outside	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		<p>Lerwick beyond March 2014 when the current contract expires. The council's email system also requires to be upgraded as it will be unsupported after 2014. Virtual desktop technology has the potential to further extend the life of computers, particularly in schools, complementing the council's ability to continue to maintain the infrastructure in a reduced budget regime. Options for this technology will be investigated and trialled. The existing Shetland Smartcard initiatives, Young Scot, leisure centres, library, cashless catering in schools, are planned to be completed. The new ferry ticketing system is due to be completed in 2014.</p>	
<p>Joint working Progress with any significant shared services initiatives, in particular in relation to governance or pace of implementation.</p>	<p>No scrutiny required</p>	<p>Community Planning Partnership governance arrangements were approved by council and partners in May 2012.</p> <p>A Shetland Partnership community plan 2012-20 is in place which aligns the Scottish Government's five national strategic objectives and the 16 national outcomes. The plan was the result of an intensive scenario planning exercise in 2011 to explore and test alternative futures. The Partnership has developed a guide to ensure consistency in the way local organisations involve local communities in Shetland.</p> <p>The council works collaboratively with NHS Shetland and other partners in the public, private and voluntary sectors. The Shetland Partnership is the local Community Planning Partnership for the Shetland Islands Council area.</p>	<p>No specific scrutiny activity</p>

Area	Risk assessment	Current position	What we plan to do
Efficiency How effectively the council is improving its efficiency in response to the budget challenges being faced.	No scrutiny required	<p>In 2012/13 the council spent £179 million on the provision of public services and had an overall deficit of £18.5 million. To contribute to the achievement of its financial plans, the council has made significant savings during the previous two years (£11.8 million in 11/12 and £18.6 million in 12/13). The council plans to make further savings of £23 million by 2016/17 so that it can preserve a minimum reserve level of £150 million and eradicate the present unsustainable draw on reserves to fund the general fund deficit. This is a challenging area for the council, although the LAN notes that the council's approach to the achievement of efficiencies in managing its financial affairs has improved substantially over the last two years.</p> <p>The council's 2012/13 SPIs indicate a mixed picture of performance: 12 areas of improved performance, nine areas of declined performance and three unchanged. Areas where performance has improved include:</p> <ul style="list-style-type: none"> • Sickness absence • Percentage of invoices paid within 30 days • Cleanliness index <p>Areas where performance has declined include:</p> <ul style="list-style-type: none"> • Net cost of refuse collection per premise • Net cost of refuse disposal • Cost of collecting council tax per dwelling <p>The council's approach to the delivery of services has changed</p>	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		significantly over recent years but, given that, there is still a significant level of draws from reserves	
Equalities Whether the council is providing effective leadership of equalities and is meeting its statutory obligations.	No scrutiny required	The Equality Act 2010 introduced a new public sector duty to ensure equality is mainstreamed into public bodies' core work and that it is not a marginal activity. One of the key requirements of the legislation was for public bodies to publish a set of equality outcomes and an equality mainstreaming report by 30 April 2013. In April 2013, the council, along with its planning partners, published Shetland's Equalities Mainstreaming Report and Equality Outcomes 2013-17. The report sets out the partners' approaches to mainstreaming equality and provides details of quality outcomes.	No specific scrutiny activity

Service performance

40. The following table provides an assessment of scrutiny risk relating to the performance of the council's main inspected public services (education, social care services and housing) and non-inspected services (eg corporate services, culture and leisure services, environmental services).

Area	Risk assessment	Current position	What we plan to do
Education The quality of local education services and the resulting outcomes (including early years).	No scrutiny required	<p>Primary and secondary schools continue to deliver high quality of education. SQA attainment figures show a steady improvement across a number of levels year on year. At all levels the authority scores better than comparator authorities or the national average.</p> <p>Early years learning continues to be of a high standard - an inspection of a pre-school in August 2013 recorded that it scored "very good" across all five quality indicators.</p> <p>The results of inspections of primary schools in 2013 were very positive, with one school being evaluated as "excellent" across all five quality indicators.</p> <p>Shetland College was inspected at the end of October 2013. The outcome was positive, although the current staffing arrangements at senior level were identified as posing a risk to the college's effective performance.</p> <p>Shetland is one of the pilot authorities engaged in a local partnership agreement with Education Scotland. This is resulting in a better coordinated response and more structured engagement from both parties. Education Scotland specialist staff are engaged with the</p>	<p>Education Scotland will liaise closely with the authority to ensure that it fulfils its obligations within the consultation process in formally reporting on the education aspects as per the School (Consultation) (Scotland) Act 2010.</p> <p>Ongoing inspection programmes of schools, centres, colleges and learning communities.</p>

Area	Risk assessment	Current position	What we plan to do
		<p>authority in a support and improvement role on an ongoing basis. Recent examples would include: support with parental engagement and implementation of Curriculum for Excellence, input on quality assurance and moderation, religious and moral education and health and wellbeing. As a result, Shetland is making steady progress towards successful implementation of Curriculum for Excellence.</p> <p>The following areas of concern were identified:</p> <ul style="list-style-type: none"> • Need to resolve long-term strategy for the delivery of secondary education in Shetland given entitlements of Curriculum for Excellence. • Financial challenges faced by council. • Decisions relating to the implementation of savings; proposals under the Blueprint for Education have in some cases been deferred. • Improvements required in the quality of communication between council and parents re Curriculum for Excellence. • Proposed merger of Shetland College, North Atlantic Fisheries College and Train Shetland by 2016. 	<p>Regular/on going contact between the Education Scotland Area Lead Officer and the authority.</p> <p>Ongoing monitoring of Partnership Agreement by Area Lead Officer.</p>
Social care services The quality of local social work and care services and the resulting outcomes (including	No scrutiny required	The Care Inspectorate reported that children's services and community care services performed satisfactorily during 2013. The Care Inspectorate undertook a programme of inspections of regulated services during 2013/14 in accordance with its statutory obligations and annual inspection plan and will continue to do so in 2014/15.	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
adult care, older peoples services, learning disability services, criminal justice services, mental health services, children and families).		<p>There has been no recent scrutiny of social work services.</p> <p>Link inspectors for social work services carried out capacity building work on the invitation of the Child Protection Committee in Shetland in February 2013. This was in line with the findings in both the ISLA and CP2 that self-evaluation was an area requiring improvement. Key strengths identified were:</p> <ul style="list-style-type: none"> • Progress had been made by the Child Protection Committee to develop a robust framework for self-evaluation. • Quality and effectiveness of leadership had improved. <p>Shetland is involved in Level of Service/Case Management Inventory (LS/CMI) an assessment that measures the risk and need factors of late adolescent and adult offenders.</p> <p>Development of a clear framework for self-evaluation of social work services across two different directorates is still at an early stage.</p> <p>The Professional Group has re-affirmed its purpose, agenda and work plan and plays a significant role in the professional leadership of social work. The group is chaired by the chief social work officer and is the main forum to discuss professional social work issues. The group has a key role in quality assurance and in self-evaluation. This has been particularly helpful through the recent period of management re-structuring.</p> <p>Restructuring of council services has left some gaps in key management positions in social work services, both in adult and children's services. Recruitment and retention of social worker posts has been difficult, particularly mental health officers and children and</p>	

Area	Risk assessment	Current position	What we plan to do
		families posts. The situation has been eased with short term interim appointments and officers returning from secondment.	
Housing and homelessness The quality of housing and homeless services and the resulting outcomes.	Further information required.	Progress is still being made but there are risks to the council meeting the SHQS in 2015. During its most recent scrutiny work, the SHR raised these risks with the council. The SHR may follow-up these issues when the council completes its planned stock condition survey work in June 2014.	No specific scrutiny activity
Non-regulated services Particular strengths and challenges in the range of non-regulated services provided by the council, and any significant changes to performance.	No scrutiny required	Shetland shows strength across a number of performance indicators within non-regulated services. The LAN does not consider this an area of scrutiny risk. Areas of good performance were recorded in the number of visits to sports facilities, museums and libraries are all above the national average.	No specific scrutiny activity

Improving and transforming public services/public performance reporting

41. The following table provides an assessment of scrutiny risk relating to how the council is improving and/or transforming public services, and the extent to which it is meeting its public performance reporting obligations under the Local Government in Scotland Act 2003.

Area	Risk assessment	Current position	What we plan to do
Improving and transforming public services The council's arrangements for continuing to deliver services with reducing resources and growing demand, and what impact this is having on service outcomes.	No scrutiny required	<p>The council has gone through a range of changes and developments in recent years, particularly in the context of the Best Value review work undertaken by Audit Scotland. The Accounts Commission has noted that:</p> <p><i>"The council continues to move in the right direction and the clear commitment to improve evident at the time of [the] last report has been sustained. The council's self awareness continues to improve and it understands that it must continue to focus on its priorities and what still needs to improve for the future".</i></p> <p>When the council's Planning and Performance Management Framework (PPMF) was updated in 2012, it was acknowledged that it would have to be updated again when the council developed its Corporate Plan. In June 2013, the council approved an updated PPMF, including the integration of further improvement activity into the Corporate Plan, concluding the operations of the Sounding Board and returning full improvement scrutiny and performance management responsibilities to the Executive Committee.</p>	No specific scrutiny activity

Area	Risk assessment	Current position	What we plan to do
		<p>Council-wide financial performance is reported regularly to the Executive Committee and departmental performance is reported to the relevant functional committee.</p> <p>The council has acknowledged the challenges in having an overly large number of key actions. As a result, the Corporate Plan now lists less than 50 priority actions for 2014, with the Change Programme concentrating on only 30 of those.</p> <p>The council has a mixed level of performance. Some areas, such as invoices paid within 30 days and the condition and suitability of operational accommodation, are showing improved performance. Areas of declining performance include the cost of refuse collection and disposal and the cost of council tax collection. In recent years, there has been a slight decline in overall performance compared to a previous period of ongoing improvement. There is a risk that the overall quality of services continues to decline, particularly as the council aims to deliver significant savings while managing conflicting priorities.</p>	
<p>Public performance reporting (PPR)</p> <p>The progress that is being made by councils in meeting their PPR obligations.</p>	No scrutiny required	<p>The council has a performance page on its website which has all of its key plans monitoring reports and guidance including; SOA, SPIs, corporate and community plans and improvement actions. All committee papers and minutes are available on the council's website.</p> <p>In June 2013, the Accounts Commission considered a report which presented the findings of the Audit Scotland assessment of all 32 councils' PPR arrangements for the 2011/12 financial year in accordance with the Accounts Commission SPI Direction for 2013/14. The review</p>	No specific scrutiny activity although the local audit team will continue to monitor developments in the council's approach to Public Sector Reporting..

Area	Risk assessment	Current position	What we plan to do
		<p>assessed whether each council fully, partially or does not meet the corporate assessment themes and service areas set out in the Direction. The report identified that the council's arrangements for meeting the reporting requirements for SPI1 (Corporate Management) & SPI2 (Service Performance) were as follows:</p> <p>SPI1:</p> <ul style="list-style-type: none"> Fully meeting 0 areas. Partially meeting 4 areas (employees, assets, sustainable development and equalities & diversity). Not meeting 3 areas (responsiveness to its communities, revenues & service costs and procurement). <p>SPI2:</p> <ul style="list-style-type: none"> Fully meeting 0 areas. Partially meeting 10 areas, (benefits administration, community care, cultural & community services, planning, education of children, child protection & children's social work, housing & homelessness, protective services, roads & lighting and waste management services). Not meeting 1 area (criminal justice social work). 	

Appendix 1: Scrutiny plan

SHETLAND ISLANDS COUNCIL 2014/15												
Scrutiny activity year 1	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
National or supported self-evaluation work year 1												
Audit Scotland - follow up of Audit Scotland national report, <i>Major capital investment in councils</i> .			X									
Care Inspectorate - Children's services and adult services inspection										X	X	X

SHETLAND ISLANDS COUNCIL 2015/16												
Scrutiny activity year 2	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
National or supported self-evaluation work year 2												

SHETLAND ISLANDS COUNCIL 2016/17												
Indicative scrutiny activity for third year						Potential scrutiny bodies involved						

Note: The focus of the AIP is strategic scrutiny activity - that is, scrutiny activity which is focused at a corporate or whole-service level. However, there will also be baseline scrutiny activity ongoing at a unit level throughout the period of the AIP, for example, school and residential home inspections. Scrutiny bodies also reserve the right to make unannounced scrutiny visits. These will generally be made in relation to care services for vulnerable client groups. The

annual audit of local government also comprises part of the baseline activity for all councils and this includes work necessary to complete the audit of housing benefit and council tax benefit arrangements. Education Scotland, through the Area Lead Officer, will continue to support and challenge education services regularly and as appropriate. The Care Inspectorate will continue to regulate care services and inspect social work services in accordance their responsibilities under the Public Services Reform (Scotland) Act 2010.

STRATEGIC RISK ASSESSMENT – SHETLAND ISLANDS COUNCIL CORPORATE PERFORMANCE

2010	2011	2012	2013	2014
Vision & Strategic Direction	Vision & Strategic Direction	Vision & Strategic Direction	Vision & Strategic Direction	Leadership and Direction
Governance & Accountability	Governance & Accountability	Governance & Accountability	Governance & Accountability	Governance & Accountability
Community Engagement	Community Engagement	Community Engagement	Community Engagement	Community Engagement
Financial Management	Financial Management	Financial Management	Financial Management	Financial Management
People Management	People Management	People Management	People Management	People Management
Asset Management	Asset Management	Asset Management	Asset Management	Asset Management
Procurement	Procurement	Procurement	Procurement	Procurement
Risk Management	Risk Management	Risk Management	Risk Management	Risk Management
Information Management	Information Management	Information Management	Information Management	Information Management
Efficiency	Efficiency	Efficiency	Efficiency	Efficiency
Equalities	Equalities	Equalities	Equalities	Equalities
Performance Management	Performance Management	Performance Management	Performance Management	Improving & Transforming Services
Public Performance Reporting	Public Performance Reporting	Public Performance Reporting	Public Performance Reporting	Public Performance Reporting
				Joint Working

STRATEGIC RISK ASSESSMENT – SHETLAND ISLANDS COUNCIL STRATEGIC & SERVICE PERFORMANCE

2010	2011	2012	2013	2014
Community Leadership	Community Leadership	Community Leadership	Community Leadership	Community Planning & SOA
				Health & Social Care Integration
				Police & Fire
				Welfare Reform
				Education
Education	Education	Education	Education	Social Work
Social Work	Social Work	Social Work	Social Work	
Housing and homelessness	Housing and homelessness	Housing and homelessness	Housing and homelessness	Housing and homelessness
Infrastructure & Development	Infrastructure & Development	Infrastructure & Development	Infrastructure & Development	Non-regulated services

**Audit Committee****18 June 2014****Internal Audit – Annual Report 2013/14****Report No: IA-03-14-F****Report Presented by Executive Manager –
Internal Audit****Internal Audit****1.0 Summary**

- 1.1 This report presents the Audit Committee with an Annual Report (Appendix 1) of the activity of the Internal Audit Service for 2013/14.
- 1.2 The Annual Report is for noting.

2.0 Decision Required

- 2.1 The Audit Committee is asked to note the contents of the Annual Report and comment accordingly.

3.0 Detail

- 3.1 The purpose of Internal Audit, as defined in the Audit Charter, is to reassure Council Members that:
- there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided, and
 - the Council's systems of internal control, corporate governance and risk management are both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.

- 3.2 Appendix 1 details the Internal Audit activity for 2013/14, with a brief description of key audit issues identified since the interim reports to the Audit & Standards Committee in November 2013 and February 2014. Full copies of most Internal Audit reports, the Strategic Plan and the annual operational plan can be found on Internal Audit's site on the Council Internet.
- 3.3 Appendix 2 provides additional information which Members are asked to note that, if publicised at this time, could impact on ongoing contractual matters. In this regard, the appendix is marked as "Not for Publication" and officers can answer any detailed question in private, following a resolution to exclude the public.
- 3.4 Managers have undertaken to rectify issues through the agreed action plans to a satisfactory degree.
- 3.5 Within service areas subject to Internal Audit review, and assuming implementation of the recommendations made, reasonable assurance can be placed upon the controls in operation.
- 3.6 Follow up audits in their current form are no longer undertaken as a matter of course. Responsibility rests with managers to update progress on agreed courses of action. Quarterly reports are now presented to CMT highlighting agreed actions which have passed their agreed implementation date. It then becomes the appropriate Director's responsibility to progress. Any ongoing matter of particular concern would be reported to Audit Committee.
- 3.7 It was reported in my 2012/13 annual report that compliance with Council Standing Orders and the Small Contracts Procedures continued to be a problem area. As advised to Audit & Standards Committee in February 2014 there are still substantial issues of concern notably in Ferries and Ports & Harbours. This is a situation that is being closely monitored by Audit Scotland and is recorded on the Corporate Risk Register. The Director – Infrastructure Services is taking a proactive role in relation to these matters.
- 3.8 In previous years it has been reported that Risk Registers throughout the Council were not fully completed. The review of the Best Value checklist for risk management revealed that there are a number of areas in relation to risk management that still require to be improved corporately.
- 3.9 Other prime areas of concern identified during 2013/14 were a lack of planned maintenance at Ports & Harbours, the absence of a fleet vehicle policy leading to several issues not being adequately addressed, the absence of adequate financial controls at Tingwall Airport and within ICT poor stock control, lack of logging firewall activity and inadequate recording of the disposal of hard drives. The Capital Project review of Shetland College Phase 3 also identified a number of issues that proper implementation of the Gateway process and of PRINCE 2 principles should eradicate for future projects.

- 3.10 Internal Audit also liaises with the Council's External Auditors, providing them with copies of all reports issued. This arrangement is reciprocated and is working satisfactorily.

Internal Audit Resourcing

- 3.11 As advised in April 2014 the Internal Audit Service is currently undergoing some staffing changes.
- 3.12 Staff will continue to progress individual training plans within budgetary constraints.
- 3.13 The Audit & Systems Assistant successfully passed the Certified Information Systems Auditor (CISA) examination during 2013/14 and the Internal Auditor is to be part of a cohort of 4 Council staff progressing through the CIPFA Accountancy qualification from 2014/15

Internal Audit Performance

- 3.14 For 2013/14, Internal Audit have performed 93% of the Audit Plan. This compares to 92% completion in 2012/13. This is directly attributable to the hard work of Internal Audit staff.
- 3.15 The performance target of issuing draft final reports within 14 days of audit testing completion was achieved in 100% of cases.
- 3.16 Internal questionnaires completed and returned by auditees indicate a high level of satisfaction with the service received.
- 3.17 Quarterly Internal Quality review meetings are held between the Executive Manager and the Principal Internal Auditor. In addition regular team meetings and ongoing quality checks are undertaken. This all contributes towards compliance with the Public Sector Internal Audit Standards (PSIAS).

Public Sector Internal Audit Standards

- 3.18 As the Committee are aware, a new set of professional standards based on the mandatory elements of the Institute of Internal Auditors (IIA) International Practices framework came into force on 1 April 2013. Shetland Islands Council Internal Audit Service substantially complies with these standards and, as previously advised, moves are ongoing within SLACIAG (Scottish Local Authority Chief Internal Auditors Group) to ensure an external peer review is undertaken on a 4-yearly basis in compliance with PSIAS requirements.

Fraud / National Fraud Initiative (NFI)

- 3.19 The Council's Strategy for the Prevention and Detection of Fraud and corruption requires that all suspicions of impropriety must be reported

to the Executive Manager – Finance and the Executive Manager – Internal Audit.

- 3.20 All frauds over £5,000 require to be reported to Audit Scotland. For 2013/14 no issue was formally reported specific to that year albeit two matters were advised to Audit Scotland and referred on to the police but neither have been progressed at that level.
- 3.21 Instances of fraud/ theft are relatively rare in the Council. However, it is essential that adequate controls remain in place and are observed to try and ensure this remains the case.
- 3.22 The Council were part of the 2012/13 NFI with data submitted in Autumn 2012 and subject to review in the summer of 2013. The responsible officer advised that all data was submitted on time and subsequent data matches completed within a reasonable timescale. In total we had 3,640 data matches with no cases of fraud found. A further exercise for 2014/15 will commence this year.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – Contributes to the priority of being a properly led and well-managed Council, dealing with the challenges of the present and the future, and doing that within our means.
- 4.2 Community /Stakeholder Issues – None.
- 4.3 Policy and/or Delegated Authority – The Audit Committee remit includes consideration of audit matters and to oversee and review action taken on Internal Audit activity.
- 4.4 Risk Management – Whilst no specific risk can be attributed to this report, Internal Audit facilitates reduction of risks identified as a result of work undertaken. This can only be the case if Council management act as per agreed action plans to deal with issues identified by Internal Audit.
- 4.5 Equalities, Health and Human Rights – None
- 4.6 Environmental – None

Resources

- 4.7 Financial – None
- 4.8 Legal – None
- 4.9 Human Resources – None
- 4.10 Assets and Property – None

5.0 Conclusions

- 5.1 Notwithstanding the issues highlighted above and in Appendix 1, from the work performed as part of the annual audit plan for 2013/14, Internal Audit concluded that the Council's systems of internal control, governance and risk management were generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought. This assumes that issues identified and agreed are, have been or will be addressed. Prime concern would relate to continuing issues with contracts.
- 5.2 Any system of internal control can only provide reasonable, but not absolute, assurance against loss. Internal Audit can only provide reasonable comment that there are no major weaknesses in the systems they have reviewed.

For further information please contact:

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June 2014

List of Appendices

Appendix 1 - Annual Report for 2013/14.

Appendix 2 – Additional Information.

END

Audit	Auditee	Progress Report / Key Audit Issues
Income & Recovery	Team Leader - Revenues & Benefits	Reported Nov 13.
Transport Operations - FMU	Transport Manager - FMU	Reported Nov 13.
Transport Operations - Airport	Executive Manager - Environmental Services	Reported Nov 13.
Architectural & Surveying / Gateway Process	Team Leader - Architectural & Surveying	Reported Nov 13.
Transport Operations - Bus	Executive Manager - Building & Transport Operations	Reported Nov 13.
Payroll & Pensions	Team Leader - Payroll & Pensions	Reported Feb 14
ICT	Executive Manager - ICT	Reported Feb 14
Ports & Harbours	Director - Infrastructure	Reported Feb 14
Ferry Service follow up work on Contracts	Executive Manager - Ferry Service	Reported Feb 14
Legal	Team Leader - Legal	No key issues were identified and audit issues identified were accepted and are reported as being fully resolved.
Procurement	Procurement Manager	No key audit issues were identified and the one audit issue was accepted and commitment given to address. It is acknowledged by the service that there is still a fragmented approach to procurement across the Council. Progress has been made through the Council's membership of Scotland Excel and involvement with various national



		procurement contracts; however, it is recognised that more work is required to take advantage of potential savings and efficiencies and standardised procurement processes must be progressed further.
Payments	Payments Manager	There were no key audit issues and only one audit issue identified during the course of this audit; this was accepted and commitment given to address.
Local Taxation	Team Leader - Revenues & Benefits	No issues were identified.
Youth Services	Team Leader – Youth Services	c/fwd to 2014/15

Investigations / Reviews	Reported to:	
SUMS College	Acting Director - Shetland College	Reported Nov 13.
Hardship Fund	Acting Director - Shetland College	Reported Nov 13.
LEADER Funding	Executive Manager - Economic Development	Work undertaken and charged in accordance with SLA.
AXIS 4	Executive Manager - Economic Development	Reported Nov 13.
Mobile Phone Payments	Corporate Management Team	Reported Nov 13.
Capital Project – Occupational Therapy	Contract Manager	Reported Nov 13.
Asset Register	Executive Manager - Finance	Reported Nov 13.



Credit Cards / Cash Security	Executive Manager - Finance	A number of issues were identified. The Executive Manager – Finance has accepted the recommendations made and is currently progressing reviews in these areas.
Travel	CMT	c/fwd until 14/15 as new Policy being developed.
Capital Project – Shetland College	Executive Manager - Capital Programme	See Appendix 2
Corporate Improvement – BV2	CMT	To assist with Council preparation for our Best Value 2 audit, at the request of CMT, Internal Audit with assistance from relevant officers assessed the Council against Audit Scotland best value toolkits in relation to Asset Management, Risk Management and Governance & Accountability. These toolkits help to assess whether basic practice, better practice or advanced practice standards are being met. The findings were reported to CMT for discussion. In the case of asset management basic practice and some better practices were being met with 2 areas assessed where basic practice was not being met. It was agreed the findings were to be subject to discussion between the Director – Corporate Services and the Executive Manager – Capital Programme. In the case of Governance & Accountability the assessed levels were either basic practice or substantially better practice. No areas were assessed where basic practice was not met. However for Risk Management most categories were assessed as either basic practice or basic practice not met. The Director – Corporate Services was tasked by CMT to develop an action plan to remedy this situation.
Back Up Systems	Executive Manager - ICT	Incorporated within ICT audit.
Audit Logs	Executive Manger - ICT	Incorporated within ICT audit.
Systems Access	Various	Reported Nov 2013.

