

**Audit Committee****24 February 2015****Audit Scotland Annual Audit Plans 2014/15
Shetland Islands Council and Shetland Islands Council Pension Fund****F-011-15-F****Executive Manager - Finance****Corporate Services****1.0 Summary**

- 1.1 The purpose of this report is to enable the Audit Committee to consider the external auditors Annual Audit Plans for the 2014/15 accounts for both Shetland Islands Council (the Council) and the Shetland Islands Council's Pension Fund (the Pension Fund).

2.0 Decision Required

- 2.1 The Audit Committee are not required to make any decisions from this report. Audit Scotland, the Council and Pension Fund's auditors, requested that their Annual Audit Plans for 2014/15 be submitted to the Audit Committee for noting.

3.0 Detail

- 3.1 The Annual Audit Plans for the 2014/15 accounts in Appendix A and B covers planned work by the auditors involving:
- an audit of the financial statements and provision of an opinion of whether,
 - they give a true and fair view of the financial position of the Council and the Pension Fund as at 31 March 2015 and their income and expenditure for the year then ended; and
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014/15 Code of practice on Local Authority Accounting in the United

Kingdom (the Code) which applies from accounting periods on or after 1 April 2014.

- an audit of the financial statements and provision of an opinion for Zetland Educational Trust.
- an annual report on the audit addressed to the Council and the Pension Fund and the Controller of Audit.
- reporting the findings of the shared risk assessment process in a Local Scrutiny Plan.
- a review and assessment of the Council and the Pension Fund's governance and performance arrangements in a number of key areas including the review of the adequacy of internal audit, governance statement, performance and improvement arrangements and risk management.
- provision of an opinion on a number of grant claims and returns, including whole of government accounts.
- reporting of the national fraud initiative arrangements and results.

3.2 Representatives of Audit Scotland are expected to be in attendance to provide further background or answer questions.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The audit process plays a key role in helping the Council to maintain good governance, accountability and provides assurance around financial stewardship.
- 4.2 Community /Stakeholder Issues – None.
- 4.3 Policy And/Or Delegated Authority – The Audit Committee has terms of reference to be consulted on the External Audit strategy and plan, review reports from the Council's External Advisors and review action on External Audit recommendations
- 4.4 Risk Management – The Annual Audit Plans are prepared from Audit Scotland's analysis of risks facing the Council and the Pension Fund. Their audit work is focused on identifying and assessing the key challenges and risks to the Council and the Pension Fund, and reporting these so that action can be taken to minimise future risk.
- 4.5 Equalities, Health And Human Rights – None.
- 4.6 Environmental – None.

Resources

- 4.7 Financial – The audit fee for the 2014/15 audit of Shetland Islands Council and Shetland Islands Council Pension Fund, as stated in the audit plan, amounts to £218,300 for the Council and £32,500 for the Pension Fund.
The total value (£250,800) is within the fee range set by Audit Scotland, which has an upper value of £262,710 and lower value of £214,940.
- 4.8 Legal – The Shetland Islands Council and the Shetland Islands Council Pension Fund Accounts are required to be prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014 Code of Practice on Local Authority Accounting.
- 4.9 Human Resources – None.
- 4.10 Assets And Property – None.

5.0 Conclusions

- 5.1 The Annual Audit Plans provide valuable information on the audit work which the external auditors will undertake to review and assess the 2014/15 Council and Pension Fund Statements of Accounts.

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Appendix A – Shetland Islands Council Annual Audit Plan for 2014/15
Appendix B – Shetland Islands Council Pension Fund Annual Audit Plan for 2014/15

END



Shetland Islands Council

Annual Audit Plan 2014/15

Prepared for Members of Shetland Islands Council

February 2015

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Shetland Islands Council's financial statements.
2. This report summarises the key challenges and risks facing the council and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing the council
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.

The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local

authority is the sole trustee. The council has one trust that has charitable status, Zetland Educational Trust, with total assets of £659,286. Accordingly, we will perform the audit of the council's charitable trust in parallel with the audit of the council's financial statements.

Summary of planned audit activity

3. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of Shetland Islands Council as at 31 March 2015 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - an audit of the financial statements and provision of an opinion for Zetland Educational Trust
 - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year.

-
- a review and assessment of the council's governance and performance arrangements in a number of key areas including: adequacy of internal audit, governance statement, performance and improvement arrangements and risk management
 - provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
 - reporting of National Fraud Initiative arrangements and results

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Executive Manager - Finance

7. It is the responsibility of the Executive Manager - Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code. This means:
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of Shetland Islands Council as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. Shetland Islands Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Shetland Islands Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
- understanding the business of the council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2014/15.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

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12. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
- Local Taxation
 - Benefits & Rents
 - Purchasing / Invoice Payment.
13. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- Performance indicators
 - Members Allowances
 - Registers of Interests
 - Voluntary Severance
 - Network Security
 - System Access.

Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

15. Based on our knowledge and understanding of the council we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £1.7 million.
16. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
17. For 2014/15 performance materiality has been set at £0.85 million. We will report, to those charged with governance, all misstatements greater than £0.02 million.
18. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

19. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
20. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period. This also applies to any charities for which the local authority is the sole trustee.
21. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
22. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

23. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit Committee dates:

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	30 May 2015
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2015
Planned committee approval of unaudited financial statements	29 June 2015
Submission of unaudited council financial statements with working papers package	30 June 2015
Submission of unaudited Zetland Educational Trust financial statements with working papers package	30 June 2015
Progress meetings with lead officers on emerging issues	As required during the audit
Latest date for final clearance meeting with Executive Manager - Finance	4 September 2015
Agreement of unsigned financial statements for Audit Committee agenda, and issue of combined ISA 260 report to those charged with governance	8 September 2015

Key stage	Date
and Annual Audit Report.	
Audit Committee date	22 September 2015
Independent auditors report signed	30 September 2015
Latest date for submission of unaudited whole of government accounts to external audit	30 July 2015
Latest date for signing of WGA return	Early October 2015

24. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Executive Manager - Finance, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group.
25. We will provide an independent auditor's report to Shetland Islands Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be

combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than previous years.

26. All annual reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).
27. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

28. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
29. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views

on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell.

Independence and objectivity

- 30. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.
- 31. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Shetland Islands Council.

Audit issues and risks

Audit issues and risks

- 32. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
- 33. **Income:** Auditing standards (ISA 240 *The auditor’s responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. Shetland Islands Council receives a significant amount of funding from the Scottish Government, however over £50 million is received from other sources, including towage and harbour dues, sales, agency charges and fares.
- 34. The extent and complexity of the various sources of income means there is an inherent risk that income could be materially misstated. We will undertake focused substantive testing across income streams included in the financial statements.
- 35. **Management override of controls:** ISA 240 also highlights the unique position of management to influence the financial

statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to fraud.

36. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.
37. **Valuations:** The financial statements of Shetland Islands Council include significant assets and liabilities where the valuations are determined by professional judgement and include significant assumptions and estimates including non-current assets (£617 million) and provisions (£1.02 million). The degree of subjectivity in the measurement and valuation represents a risk of material misstatement. We will undertake focused substantive testing on these aspects of the financial statements.
38. **Finance function – senior appointments.** The council has experienced changes in its Finance personnel during the current financial year. This is often a source of risk for organisations in terms of financial accounting and control. Also, the role of Executive Manager – Finance (Section 95 Officer) is the subject of recently changed arrangements. This is a key position within the council for ensuring that effective financial planning and management arrangements are in place. The Section 95 officer also has an obligation to ensure that the

council's financial statements are prepared in accordance with the Code. The council has reached an agreement with Aberdeen City Council to jointly share the Head of Finance at Aberdeen City Council who will carry overall responsibility for the proper administration of both councils' finances.

39. We note that this is a fixed term arrangement at present, accompanied by a degree of external support, and we will monitor the impact of this new approach on the delivery of the council's financial management objectives.
40. **Borrowing:** For the last 20 years the council has funded all capital expenditure from its reserves and not had any external borrowing. However, in December 2013 the council agreed a Borrowing Policy and Strategy in order to secure best value in the financing of capital expenditure and maintain reserve levels. The council has borrowed over £30 million during 2014/15.
41. As part of our controls work we will test the key controls around the council's new borrowing arrangements. We will also carry out targeted substantive testing of the borrowing transactions included in the financial statements.
42. **Shetland Development Trust (SDT):** In July 2014 the council agreed to progress with the winding up of SDT with all assets and undertakings transferring to the council on 28 February 2015. As at 31 March 2014, SDT had net assets of over £11 million.

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43. We will work closely with finance staff to ensure the correct accounting treatment of SDT's assets and liabilities at the date of transfer. We will conduct appropriate tests to ensure the transfer is properly disclosed and accounted for in the financial statements.
44. **Group Accounts:** The council is required to prepare group accounts as part of its financial statements and this includes financial information obtained from the audited accounts of Shetland Charitable Trust (SCT). In previous years, the required information from SCT has only been made available to the council during the completion stage of our annual audit of the council's financial statements. If the information required from SCT's audited accounts is not available as expected, there is a risk that there will not be sufficient time to allow us to carry out the required audit work on the council's group accounts.
45. As part of our audit of the financial statements, we will work with finance staff on this matter to ensure the sign-off deadlines are achieved.
46. **Leadership and Governance:** Elected members require to work together with officers in ensuring that savings plans inherent in the MTFP are delivered effectively. Members should be focussed on ensuring that agreed plans are adhered to and/or that the resource implications of amending plans are fully considered. Decisions not to proceed with savings

initiatives need to be matched with agreed alternative proposals in order to maintain the integrity of the MTFP. We will monitor this developing area during the year.

47. **Risk Management:** The council has identified risk management as an area where improvements can be made. An external report commissioned by the Executive Manager – Audit, Risk and Improvement found that *'The existing risk management arrangements of Shetland Islands Council have grown organically over a number of years. However, there is widespread non-compliance with these throughout the organisation.'* We will monitor progress in the development of the council's risk management arrangements.

Summary assurance plan

48. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix II. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

49. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
50. In determining the audit fee we have taken account of the risk exposure of Shetland Islands Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.
51. The agreed audit fee for the 2014/15 audit of Shetland Islands Council is £218,300. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland, a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

52. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

53. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Peter Lindsay who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

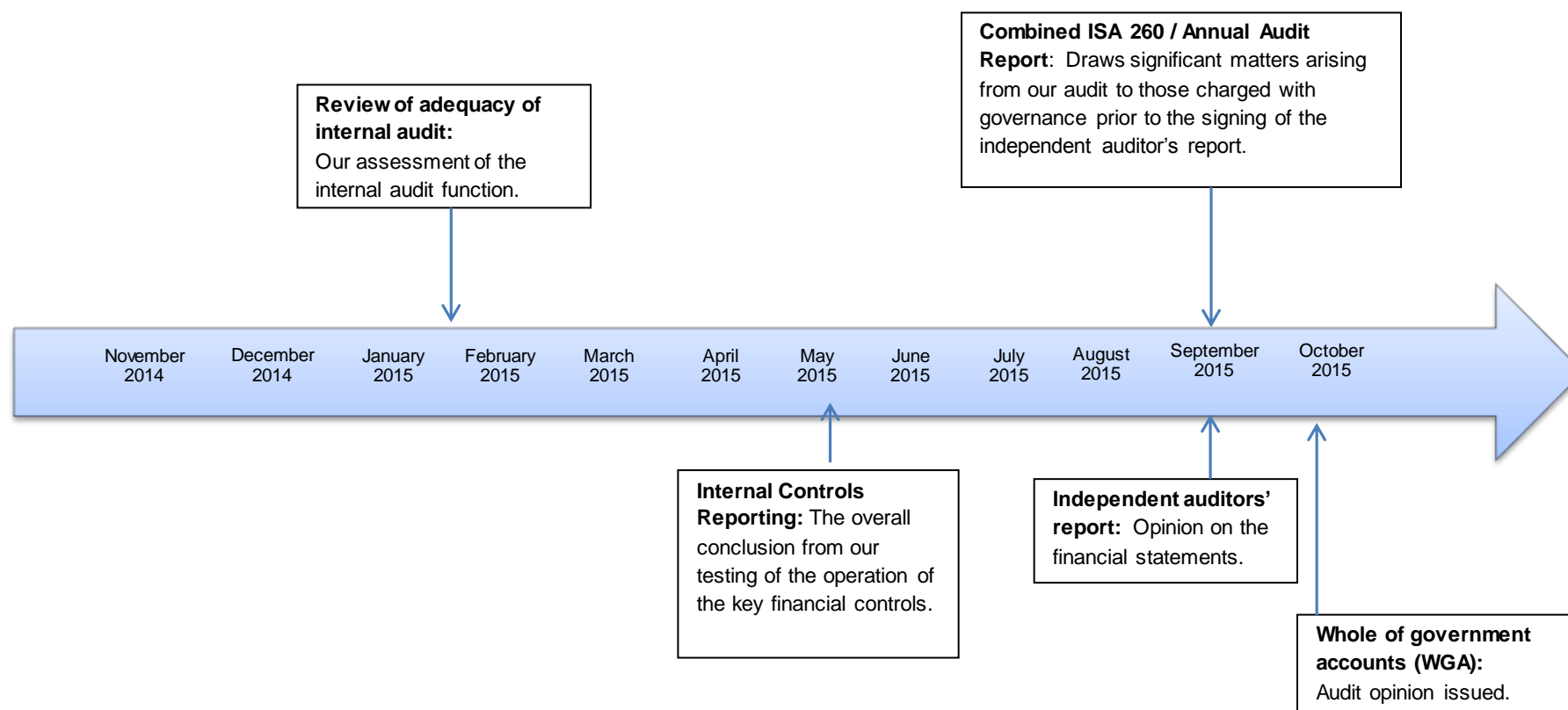
Exhibit 2: Audit team

Name	Experience
David McConnell MA CPFA Assistant Director (and certifying auditor)	David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in central government, local government and the NHS.

Name	Experience
Peter Lindsay BAcc CPFA Audit Manager	Peter has over eighteen years' experience of public sector internal and external audit with both Audit Scotland and PricewaterhouseCoopers, covering local government, education and the NHS. Peter's previous experience has also involved secondments to Scottish Enterprise and the Social Work Inspection Agency.
Graeme Samson BSc CPFA Senior Auditor	Graeme joined Audit Scotland in 2008 and has worked on a number of NHS and local government audits, and in Audit Scotland's Performance Audit and Best Value Group.
Kyle McAulay BA Professional Trainee Auditor	Kyle joined the team in 2012 as a professional trainee having studied accountancy at Glasgow Caledonian University.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Shetland Islands Council in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing Shetland Islands Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Shetland Islands Council and its officers, with the auditor’s role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk	Source of assurance	Assurance procedure
Income The Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	<ul style="list-style-type: none">Effective budget monitoring and reporting by management.	<ul style="list-style-type: none">Analytical procedures on income streams.Detailed testing of revenue transactions focusing on the areas of greatest risk.

Audit Risk	Source of assurance	Assurance procedure
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>		<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of any significant transactions that are outside the normal course of business.
<p>Valuations</p> <p>The financial statements of Shetland Islands Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Effective budget monitoring by management. • Based on previous years' work, no specific issues of concerns have been noted regarding the calculation of provisions. 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas.

Audit Risk	Source of assurance	Assurance procedure
<p>Finance function – senior appointments</p> <p>Changes across the finance function may impact upon the operation of financial management and accounting arrangements.</p>	<ul style="list-style-type: none"> • An officer has been appointed with the appropriate experience in the role of a Section 95 officer. 	<ul style="list-style-type: none"> • Audit of financial statements to ensure compliance with the Code. • Provide an update in the annual audit report. • Review financial reporting to committee throughout year. • Ongoing liaison with finance staff to ensure that the unaudited financial statements are prepared in line with the Code.
<p>Borrowing</p> <p>As borrowing is a new area for the council there is a risk that borrowing transactions are not appropriately managed and/or reported in the financial statements.</p>	<ul style="list-style-type: none"> • The council have obtained appropriate advice from borrowing specialists. 	<ul style="list-style-type: none"> • Design and perform audit tests to ensure borrowing transactions disclosed in the financial statements comply with the Code. • Ongoing liaison with finance staff to ensure that the borrowing transactions are disclosed in line with the Code.
<p>Shetland Development Trust</p> <p>There is a risk that transactions relating to the transfer of the SDT are not properly disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Knowledge and experience of finance staff. 	<ul style="list-style-type: none"> • Design and perform audit tests to ensure the SDT transfer transactions disclosed in the financial statements comply with the Code. • Ongoing liaison with finance staff to ensure that the SDT transfer transactions are disclosed in line with the Code.

Audit Risk	Source of assurance	Assurance procedure
Group Accounts There is a risk that the group accounts disclosures in the financial statements do not include accurate and reliable financial information for SCT.	<ul style="list-style-type: none">• Draft financial statements and adequate working papers.	<ul style="list-style-type: none">• Early financial statements planning meeting and review.• Regular audit liaison meetings with finance staff.



Shetland Islands Council Pension Fund

Annual Audit Plan 2014/15

Prepared for members of Shetland Pension Fund Consultative
Panel and Policy & Resources Committee

February 2015

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Shetland Islands Council Pension Fund's financial statements.
2. This report summarises the key challenges and risks facing Shetland Islands Council Pension Fund and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing Shetland Islands Council Pension Fund
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.

Summary of planned audit activity

3. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of Shetland Islands Council Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - a review and assessment of Shetland Islands Council Pension Fund's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, arrangements to support the governance compliance statement and information in the annual report
 - provision of an annual audit report addressed to the members of Shetland Islands Council Pension Fund and the Controller of Audit.

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit Committee as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Executive Manager - Finance

7. It is the responsibility of the Executive Manager - Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code. This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of Shetland Islands Council Pension Fund as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Shetland Islands Council Pension Fund. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Shetland Islands Council Pension Fund and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Shetland Islands Council Pension Fund will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within Shetland Islands Council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Materiality

12. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
13. Based on our knowledge and understanding of Shetland Islands Council Pension Fund we have set our planning materiality at 0.5% of net assets. For 2014/15 planning materiality is £1.66 million.
14. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
15. For 2014/15 performance materiality has been set at £1.16 million. We will report, to those charged with governance, all misstatements greater than £0.017 million.

16. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

17. The Local Authority Accounts (Scotland) Regulations 2014 apply to the pension fund and require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Pension Fund or a committee whose remit includes audit or governance is required to consider the unaudited annual accounts at a meeting by 31 August.
18. The Pension Fund must publish the unaudited accounts on their websites and give public notice of the inspection period.
19. The 2014 regulations require the pension fund or a committee whose remit includes audit or governance to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of

Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

20. The Pension Fund is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
21. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit Committee dates

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	29 May 2015
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2015
Planned committee approval of unaudited financial statements	29 June 2015
Submission of unaudited council financial statements with working papers package	30 June 2015
Progress meetings with lead officers on emerging issues	As required during audit

Key stage	Date
Latest date for final clearance meeting with Executive Manager - Finance	4 September 2015
Agreement of unsigned financial statements for Audit Committee agenda, and issue of combined ISA 260 report to those charged with governance and Annual Audit Report	15 September 2015
Audit Committee date	22 September 2015
Independent auditors report signed	30 September 2015

22. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Executive Manager - Finance, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group.
23. We will provide an independent auditor's report to Shetland Islands Council Pension Fund and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of

streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than previous years.

- 24. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).
- 25. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

- 26. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

- 27. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell.

Independence and objectivity

- 28. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
- 29. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Shetland Islands Council Pension Fund.

Audit issues and risks

Audit issues and risks

30. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
31. **Management override of controls:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to fraud. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.
32. **Executive Manager – Finance (Section 95 Officer):** The principle finance officer and S95 officer for the Pension Fund is the Executive Manager - Finance which is a senior management role. However, the previous Executive Manager – Finance, who had been in post since April 2011, left in November 2014 and the council has reached an agreement with Aberdeen City Council to jointly share the Head of Finance at Aberdeen City Council who will carry overall responsibility for the proper administration of both councils' finances including the Pension Fund. We note that this is a fixed term arrangement at present, accompanied by a degree of external support, and we will monitor the impact of this new approach on the delivery of the Fund's financial management objectives.
33. **Pension Fund System:** There has been a significant change to the Pension Administration system which has recently changed from Axis to Altair. The system replacement commenced in June 2014 and was completed by December 2014. There is a risk that the new system does not operate effectively and therefore represents a significant financial statement risk. We will review the operation of the new system as part of our internal controls work.
34. **Risk Register:** The Pension Fund does not currently have its own risk register in place and there is a risk that issues specific to the fund are not identified and addressed. We intend to keep this area under review and include an update in our annual audit report.
35. **Pension Fund Governance Arrangements:** Our review of the minutes of the Pension Fund Consultative Panel during 2014 highlighted that:
- a limited number of meetings were held

-
- meetings were not held on a regular basis
 - meetings were poorly attended
 - meetings were short in length and may not allow limited time for discussion/scrutiny.

36. The Pension Fund should address the issues highlighted above when making changes to the governance structure as required by the Public Services Pension Act 2013. However, the statutory regulations underpinning the new governance requirements will not be available until early 2015. This tight deadline presents a number of challenges to the pension fund and we will continue to monitor the pension fund's governance arrangements to ensure compliance with legislation.

Summary assurance plan

37. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix II. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

38. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
39. In determining the audit fee we have taken account of the risk exposure of Shetland Islands Council Pension Fund, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.
40. The agreed audit fee for the 2014/15 audit of Shetland Islands Council Pension Fund is £32,500. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

41. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

42. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Peter Lindsay who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

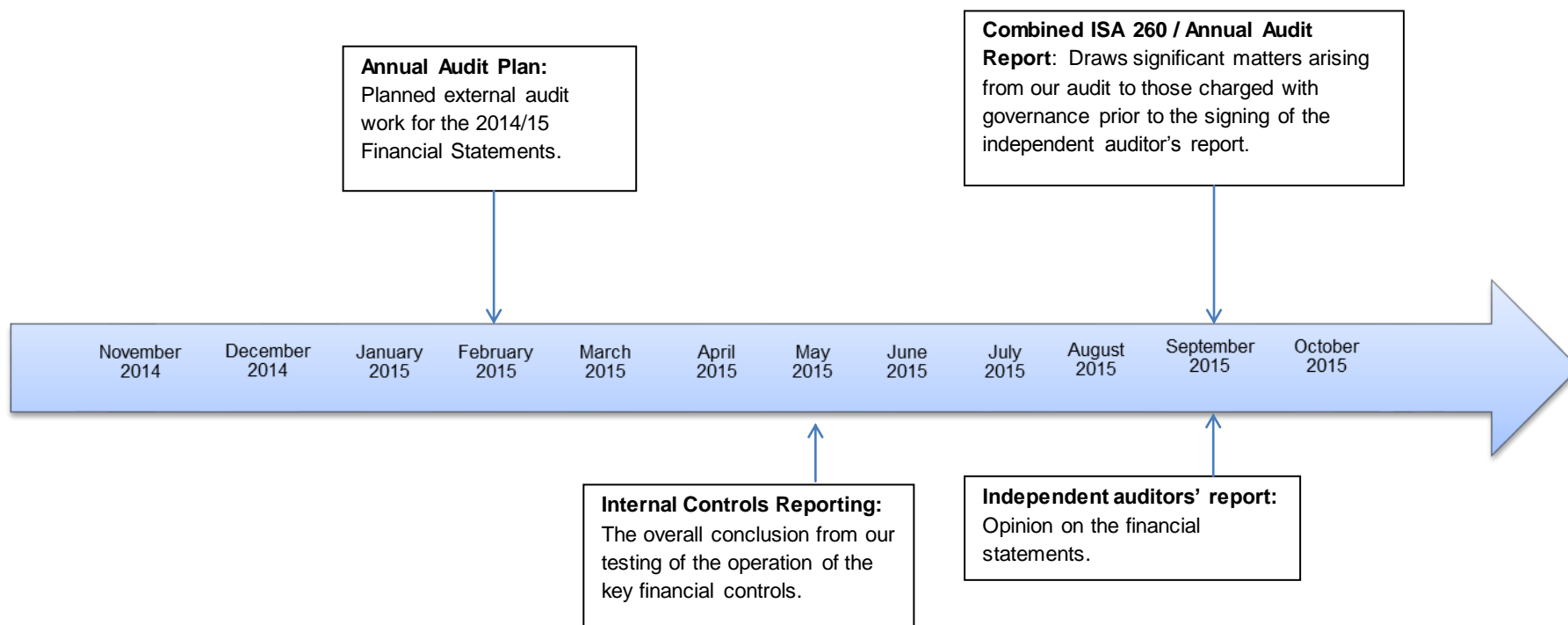
Exhibit 2: Audit team

Name	Experience
David McConnell MA CPFA Assistant Director (and certifying officer)	David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in central government, local government and

Name	Experience
	the NHS.
Peter Lindsay BAcc CPFA Audit Manager	Peter has over eighteen years experience of public sector internal and external audit with both Audit Scotland and PricewaterhouseCoopers, covering local government, education and the NHS. Peter's previous experience has also involved secondments to Scottish Enterprise and the Social Work Inspection Agency.
Graeme Samson BSc CPFA Senior Auditor	Graeme joined Audit Scotland in 2008 and has worked on a number of NHS and local government audits, and in Audit Scotland's Performance Audit and Best Value Group.
Kyle McAulay BA Professional Trainee Auditor	Kyle joined the team in 2012 as a professional trainee having studied accountancy at Glasgow Caledonian University.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Shetland Islands Council Pension Fund in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing Shetland Islands Council Pension Fund, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Shetland Islands Council Pension Fund and its officers, with the auditor’s role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk	Source of assurance	Assurance procedure
<i>Audit risk of material misstatement in financial statements</i>		
Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.		<ul style="list-style-type: none">• Detailed testing of journal entries.• Review of accounting estimates for bias.• Focused testing of accruals and prepayments.• Evaluating significant transactions that are outside the normal course of business.

Audit Risk	Source of assurance	Assurance procedure
<p>Executive Manager – Finance (Section 95 Officer)</p> <p>Changes in the finance function may impact upon the operation of financial management and accounting arrangements.</p>	<ul style="list-style-type: none"> • An officer has been appointed with the appropriate experience in the role of a Section 95 officer. 	<ul style="list-style-type: none"> • Audit of financial statements to ensure compliance with the Code. • Provide an update in the annual audit report. • Ongoing liaison with finance staff to ensure that the unaudited financial statements are prepared in line with the Code.
<p>Pension Fund System</p> <p>There is a risk that the new Pension Administration system is not operating effectively.</p>	<ul style="list-style-type: none"> • New system has been fully tested with migration of data being successful. 	<ul style="list-style-type: none"> • Undertake controls testing on new system. • Ongoing liaison with finance staff to ensure that system is operating effectively.
<p><i>Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice</i></p>		
<p>Risk Register</p> <p>In the absence of a Risk Register, there is a risk that specific issues relating to the fund are not identified.</p>	<ul style="list-style-type: none"> • Finance implementing changes as necessary. 	<ul style="list-style-type: none"> • Monitor progress throughout the year. • Provide an update in the annual audit report.



**Audit Committee
Policy & Resources**

**24 February 2015
25 February 2015**

Audit Scotland and other External Audit Reports – Best Value Reports

Report No: IA-03-15-F

**Report from: Executive Manager – Audit, Risk
and Improvement**

Corporate Services

1.0 Summary

- 1.1 This report provides a summary of the Audit Scotland Best Value follow up report recently issued to Edinburgh Council.

2.0 Decision Required

- 2.1 That the Audit Committee NOTES the contents of this report and consider whether any action is required in regard to the Best Value follow up report to Edinburgh Council and RECOMMEND accordingly to Policy & Resources Committee.
- 2.2 That the Policy and Resources Committee APPROVE any action deemed required.

3.0 Background

- 3.1 On 20 August 2014, the Council adopted a new policy and procedure to monitor actions resulting from External Auditor's/Advisers reports (Min ref 61/14).
- 3.2 The key points of the new policy are:
- All Audit Scotland and other External Adviser's reports should be presented to the relevant Committee within 2 cycles of publication.
 - It is expected that each report will require an action plan to be prepared.
 - The Audit Committee will consider the agreed action plan once it has been agreed with the relevant functional Committee.
 - Reports will be presented to the Audit Committee to monitor progress against action plans.
- 3.3 In the case of Best Value reports, not specific to Shetland Islands Council, these could not be allocated to a specific officer.

- 3.4 A co-ordinated response from relevant officers and a report thereafter will be prepared by the Executive Manager – Audit, Risk & Improvement. This is the first such report.
- 3.5 There have been no best value reports produced since the adoption of the new procedure/policy in August 2014. However a follow up report for Edinburgh and an interim report for South Ayrshire have been issued by Audit Scotland.
- <http://www.audit-scotland.gov.uk/work/bestvalue2.php>
- 3.6 Whilst both initial reports were presented prior to the new policy a summary (Appendix A) is provided of the suggested “Areas for Improvement” for Edinburgh. Shetland Islands Council specific commentary from relevant officers is italicised under each highlighted area for information and consideration by Members. A similar exercise will be undertaken for South Ayrshire when the follow up report is issued.
- 3.7 No specific concerns have been highlighted by Officers.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – Improved external engagement and sharing best practice are both elements of the Council’s Improvement Plan.
- 4.2 Community/Stakeholder Issues – NONE
- 4.3 Policy And/Or Delegated Authority – As outlined in Section 2.6 of the Council’s Scheme of Administration and Delegations, the audit committee remit includes “...*review reports from the Council’s External Advisors and review action on External Audit recommendations*”. The Policy & Resources Committee has within its remit “..*ensure the Council discharges its functions relating to Best Value*.”
- 4.4 Risk Management - Failure to deliver effective external engagement and learn from best practice elsewhere increases the risk of the Council working inefficiently.
- 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 The reports produced by the Council's External Auditors and Advisers provide valuable information for Committees and officers throughout the Council.

For further information please contact:

Crawford McIntyre Executive Manager – Audit, Risk and Improvement

01595 744546

13 February 2015

List of Appendices

Appendix A – Edinburgh Council – Areas for Improvement

END

Areas for improvement

(Edinburgh Council)

The council has responded constructively to the previous Best Value report and implemented a number of improvements. However, progress in certain areas has been slower than anticipated. It is therefore important that the council increases the pace of change and improvement. This report identifies the following areas for improvement:

□ The council needs to ensure that it applies the lessons learned from the first phase of the BOLD programme when considering its approach for the second phase. This includes adopting genuinely transformational approaches to providing services and delivering savings. The council also needs to ensure that, once it confirms BOLD proposals, it provides the funding and management skills needed to implement the projects successfully, particularly larger-scale projects.

The financial position in Edinburgh has many similarities with the position the SIC found itself in. The SIC has for the first time in many years agreed a balanced budget for 2015/16. There are also a number of parallels between the Edinburgh Council BOLD programme and our “Change Programme”. Projects from the initial “Change Programme” are now assigned to individual officers

SIC should ensure that any lessons learned from the first stage of the Change Programme are considered and incorporated as appropriate as we move forward.

□ The council should ensure that elected members are provided with clear and accessible information to help their decision-making and to support scrutiny. This is particularly important for information about the council's financial position, including progress against planned savings from the BOLD programme and improved procurement.

SIC has revamped how financial reports are presented to Members to provide improved clarity and availability of financial information. Financial information is a key element in SIC decision making and the provision of this will be reviewed periodically to ensure it supports scrutiny and decision making.

□ The council needs to ensure that its CMT takes a consistent, coordinated approach to resolving issues. This is important to ensure effective corporate working and to maintain the confidence of elected members and council staff in the CMT.

A review of CMT is currently being undertaken.

□ The council needs to develop a comprehensive workforce strategy to make sure it has sufficient people with appropriate skills and experience, both at leadership level and across the wider organisation and including the CPO, to meet the challenges it faces while increasing the pace of change and improvement.

SIC are currently developing a Workforce Strategy. This is due to be presented to Committee in April 2015.

□ The council should ensure that it involves and communicates effectively with staff at all levels to embed its vision and values across the organisation. It also needs to monitor staff views to assess the impact of this engagement, and to involve staff at an early stage when planning major changes.

SIC have developed an employee survey called Viewpoint which went live on 29/1/15. This will be subject to analysis and thereafter it is proposed that an Employee Engagement Programme will be developed. The Council also has a number of consultative committees that provide a mechanism at an early stage when planning major changes.

□ The council needs to make further progress to its ICT arrangements to ensure they are fit for purpose and help to improve services and make savings. The council also needs to ensure it has the required skills and expertise when planning and managing its new ICT contract.

SIC has an ICT Management Board which meets quarterly and an ICT Strategy is in place approved by Members. ICT is primarily undertaken in house.

**Audit Committee****24 February 2015****Public Performance Reporting (PPR) - Progress Update****Report No: IA-04-15-F****Report from: Executive Manager – Audit, Risk and Improvement****Corporate Services****1.0 Summary**

- 1.1 This report provides a summary of the work that has been undertaken to progress our statutory Public Performance Reporting requirements.

2.0 Decision Required

- 2.1 That the Audit Committee NOTES the contents of this report.

3.0 Background

- 3.1 On 23 September 2014 a report was presented to Audit Committee to consider the contents of an Audit Scotland report on Public Performance Reporting (PPR) for 2012/13.
- 3.2 The Council was assessed on 18 categories. The results were:
- | | |
|--------------------|----|
| Full compliance | 0 |
| Partial compliance | 13 |
| No compliance | 5 |
- 3.3 An action plan was established and a commitment was given to report progress to the Audit Committee.

4.0 Detail

- 4.1 The Performance & Improvement Officer held meetings with all lead Council officers involved in the PPR process. This was to ensure officers were clear on the information required to meet 2013/14 PPR requirements.
- 4.2 Submissions were received from all officers by mid January. The information received has now been collated on to a Performance page on the Council's website. See link:

http://www.shetland.gov.uk/about_performance/

- 4.3 The information on this webpage will form the basis of the Council's submission for 2013/14 which requires to be submitted to Audit Scotland by the end of March 2015.
- 4.4 Audit Scotland will assess the information and a report will be received from them in the summer.
- 4.5 The report will be presented to Audit Committee. It is anticipated that the work undertaken to date will result in an improvement in our overall assessment.
- 4.6 Work will continue in relation to PPR to facilitate further improvement. In collating the submissions made by officers we are aware there are areas which can be improved. This will be further informed by Audit Scotland's assessment of our 2013/14 submission.
- 4.7 Audit, Risk & Improvement's Service Plan for 2015/16 identifies that further work is required to improve our Public Performance Reporting and this will be further progressed. In addition it is intended to develop a Performance Management Strategy by August 2015 to underpin performance requirements moving forward.

5.0 Implications

Strategic

- 5.1 Delivery On Corporate Priorities – This report is in line with our commitment: “we will have strong improvement-led and performance-driven culture and systems”
- 5.2 Community/Stakeholder Issues – NONE
- 5.3 Policy And/Or Delegated Authority – As outlined in Section 2.6 of the Council's Scheme of Administration and Delegations, the audit committee remit includes “...review reports from the Council's External Advisors and review action on External Audit recommendations”.
- 5.4 Risk Management - Failure to undertake a robust approach to Performance reporting may risk non-compliance with Statutory and Corporate Plan commitments.
- 5.5 Equalities, Health And Human Rights – NONE
- 5.6 Environmental - NONE

Resources

- 5.7 Financial – No direct implications
- 5.8 Legal – No direct implications
- 5.9 Human Resources - No direct implications
- 5.10 Assets And Property – No direct implications

6.0 Conclusions

- 6.1 The report informs the Audit Committee of the steps that are being taken to improve our statutory Public Performance Reporting obligations.

For further information please contact:

Crawford McIntyre Executive Manager – Audit, Risk and Improvement

01595 744546

13 February 2015

**Audit Committee****24 February 2015**

Audit Committee Business Programme – 2015/16	
GL-06-15-F	
Team Leader – Administration	Governance and Law Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to inform the Committee of the planned business to be presented to Committee for the financial year to 31 March 2016 and discuss with Officers any changes or additions required to that programme.

2.0 Decision Required

- 2.1 That the Audit Committee considers its business planned for the financial year to 31 March 2016 and RESOLVES to approve any changes or additions to the Business programme.

3.0 Detail

- 3.1 The Council approved the Council's Meeting Dates and Business Programme 2015/16 at its meeting on 17 December 2014 (Min Ref: 108/14).
- 3.2 It was agreed that the Business Programme would be presented by Committee Services to the Council and each Committee, on a quarterly basis, for discussion and approval.
- 3.3 The manner in which meetings have been scheduled is described below:

- Ordinary meetings have been scheduled, although some have no scheduled business at this stage. Where there is still no scheduled business within 2 weeks of the meeting, the meeting will be cancelled;
 - Special meetings may be called on specific dates for some items – other agenda items can be added, if time permits;
 - PPMF = Planning and Performance Management Framework meetings have been called for all Committees and Council once per quarter. These meetings are time restricted, with a specific focus on PPMF only, and therefore no other business will be permitted on those agendas;
 - Budget = Budget setting meetings – other agenda items can be added, if time permits, or if required as part of the budget setting process; and
 - In consultation with the Chair and relevant Members and Officers, and if required according to the circumstances, the time, date, venue and location of any meeting may be changed, or special meetings added.
- 3.4 If approved, the Business Programme for 2015/16 will be presented by Committee Services to the Council and each Committee, on a quarterly basis, for discussion and approval, particularly in relation to the remaining projects and reports which are listed at the end of the business programme page for each Committee, as still to be scheduled.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The recommendation in this report is consistent with the following corporate priorities:

Our Corporate Plan 2013-17

- To be able to provide high quality and cost effective services to people in Shetland, our organisation has to be run properly.
 - Fully align the timetables, time spans and approaches for financial planning relating to the medium term yearly budgeting with Council, directorate and service planning.
- 4.2 Community /Stakeholder Issues – The Business Plan provides the community and other stakeholders with important information, along with the Council's Corporate and Directorate Plans, as to the planned business for the coming year.
- 4.3 Policy And/Or Delegated Authority – Maintaining a Business Programme ensures the effectiveness of the Council's planning and performance management framework. The Business Programme supports each Committees' role, as set out in paragraph 2.3 of the Council's Scheme of Administration and Delegations, in monitoring and reviewing achievements of key outcomes within its functional areas, whilst ensuring best value in the use of resources is met to achieve these outcomes within a performance culture of continuous improvement and customer focus.

4.4 Risk Management – The risks associated with setting the Business Programme are around the challenges for officers meeting the timescales required, and any part of the business programme slipping and causing reputational damage to the Council. Equally, not applying the Business Programme would result in decision making being unplanned and haphazard and aligning the Council's Business Programme with the objectives and actions contained in its corporate plans could mitigate against those risks.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial – There are no direct financial implications in this report, but indirect costs may be avoided by optimising Member and officer time.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 The presentation of the Business Programme 2015/16 on a quarterly basis provides a focussed approach to the business of the Committee, and allows senior Officers an opportunity to update the Committee on changes and/or additions required to the Business Programme in a planned and measured way.

For further information please contact:

Anne Cogle

Tel Ext: 4554, email: anne.cogle@shetland.gov.uk

16 February 2015

List of Appendices

Appendix 1 – Audit Committee Meeting Dates and Business Programme 2015/16

Background documents:

Report GL-20-F: SIC Business Programme and Diary of Meetings 2015/16

<http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4382>



**Audit Committee - Meeting Dates and Business Programme 2015/16
as at Monday, 16 February 2015**

Audit Committee			
			<i>D= Delegated R=Referred</i>
Quarter 1 1 April 2015 to 30 June 2015	Date of Meeting	Business	D/R
	Ordinary 28 April 2015 10 a.m.	Audit Scotland and External Advisers Reports	D
		Internal Audit – Annual Plan 2015/16	D
	PPMF & Ordinary 26 May 2015 10 a.m.	SIC Review of Internal Controls 2014-15	D
		Pension Fund Review of Internal Controls 2014-15	D
		Committee Business Programme 2015/16	D
	Ordinary 29 June 2015 10 a.m.	Audit Scotland and External Advisers Reports	D
		Internal Audit – Annual Report 2014/15	D
		Pension Fund Draft Accounts 2015-16	D
		SIC Draft Accounts 2015/16	D
		Zetland Educational Trust Draft Financial Statements 2015/16	D
Quarter 2 1 July 2015 to 30 September 2015	Date of Meeting	Business	
	PPMF & Ordinary 18 August 2015 10 a.m.	Audit Scotland Reports	D
		Committee Business Programme 2015/16	D
	Special 22 September 2015 9.30 a.m.	Pension Fund Final Audited Accounts 2015-16 & Report to those Charged with Governance	R SIC 22 Sept
		SIC Final Audited Accounts 2015-16 & Report to those Charged with Governance	R SIC 22 Sept
		Final Audited Zetland Educational Trust Annual Report and Financial Statements to 31 March 2016	R SIC 22 Sept
Quarter 3 1 October 2015 to 31 December 2015	Date of Meeting	Business	
	Ordinary 6 October 2015 10 a.m.	Audit Scotland and External Advisers Reports	D



Audit Committee - Meeting Dates and Business Programme 2015/16 as at Monday, 16 February 2015

Audit Committee - <i>Continued</i>			
			<i>D= Delegated R=Referred</i>
Quarter 3 1 October 2015 to 31 December 2015 <i>Continued</i>	<i>PPMF & Ordinary</i> 17 November 2015 10 a.m.	Statutory Performance Indicators 2014/15	D
		Internal Audit – Six Monthly Internal Audit Progress Report	D
		Audit Scotland and External Advisers Reports	D
		Committee Business Programme 2015/16	D
Quarter 4 1 January 2016 to 31 March 2016	Date of Meeting	Business	
	<i>Ordinary</i> 9 February 2016 10 a.m.	TBC	
	<i>PPMF & Ordinary</i> 1 March 2016 10 a.m.	Audit Scotland and External Advisers Reports	D
		Audit Scotland Annual Audit Plan 2014-15 - SIC	D
		Audit Scotland Annual Audit Plan 2014-15 – Pension Fund	D
		Committee Business Programme 2016/17	D

Planned Committee business still to be scheduled as at Monday, 16 February 2015

- Sumburgh Airport
- Code of Corporate Governance

Audit Committee - END

tbc = to be confirmed

PPMF = Planning and Performance Management Framework meetings – no other business to be added

Budget = Budget setting meetings – other items can be added if time permits

Ordinary = Ordinary meetings – other items can be added

Special = Special meetings arranged for particular item(s) – other items can be added if time permits

END OF BUSINESS PROGRAMME as at Monday, 16 February 2015