

**Audit Committee****26 May 2015****Review of Internal Controls 2014/15 and Action Plan – Shetland Islands Council****F-019-F****Report Presented by Executive Manager –
Finance****Finance Services****1.0 Summary**

- 1.1 The purpose of this report is to present the findings of the review of internal controls by Audit Scotland in relation to the 2014/15 Council accounts and approve the Action Plan to address the weaknesses identified.
- 1.2 There are no options to consider in reaching a decision. All identified weaknesses can be addressed within existing resources.

2.0 Decision Required

- 2.1 The Audit Committee RESOLVES to approve the Action Plan.

3.0 Detail

- 3.1 Each year, the external auditors undertake an assessment of the internal controls in operation in the Council, to determine whether they can place reliance on them in the preparation of the final accounts. Appendix 1 contains the Reports from Audit Scotland in full.

4.0 ImplicationsStrategic

- 4.1 Delivery On Corporate Priorities – None.
- 4.2 Community /Stakeholder Issues – None.
- 4.3 Policy And/Or Delegated Authority – The Audit Committee remit includes consideration of all reports from the external auditors as well as an overview of the regulatory framework, including systems of internal control. As set out in paragraph 2.6 of the Council's Scheme of

Administration and Delegations, the Audit Committee is responsible for overseeing the production of the Council's Statement of Internal Controls under the regulatory framework, for which the Section 95 Officer is required to maintain.

4.4 Risk Management – The Section 95 officer is required to maintain a sound system of internal control. This assists the organisation in managing risk and helps in the attainment of organisational policies, aims and objectives. It ensures that assets are safeguarded and efficient and effective systems and procedures are in place.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial – the actions to address the key weaknesses can be addressed within the approved budgets of the Council. This Report therefore has no direct financial implications.

4.8 Legal – None.

4.9 Human Resources – None

4.10 Assets And Property – None.

5.0 Conclusions

5.1 The annual review of internal controls by Audit Scotland has demonstrated that reliance can be placed on most of the Council's key financial systems. The items highlighted as weaknesses which require action will be addressed in line with the timescale set out in the action plan, set out in Appendix 1.

For further information please contact:
Steve Whyte, Executive Manager – Finance
Steve.Whyte@Shetland.gov.uk
Telephone:
Direct Line: 01595 74 4607
18/05/2015

List of Appendix

Shetland Islands Council Review of Internal Controls 2014/15

END



Shetland Islands Council

Review of Internal Controls 2014/15

Prepared for Shetland Islands Council

May 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.

Contents

Summary	2
Introduction	2
Summary of findings.....	2
Acknowledgement	2
Audit Scope and Objectives	3
Introduction	3
Audit objectives and approach.....	3
Management action	4
Audit Findings.....	5
Internal audit	5
Systems of internal control	5
Appendix I: Action plan	7

Key contacts

Dave McConnell, Assistant Director
DMcConnell@audit-scotland.gov.uk

Peter Lindsay, Audit Manager
PLindsay@audit-scotland.gov.uk

Graeme Samson, Senior Auditor
GSamson@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Switchboard: 0131 625 1500
Website: www.audit-scotland.gov.uk

Summary

Introduction

1. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan the audit and develop an effective financial statements audit approach.

Summary of findings

2. Based on the results of our audit testing, our overall conclusion is that Shetland Islands Council's systems of internal control are operating satisfactorily.
3. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we have adjusted our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement. A summary of those areas where we consider there to be scope for further improvement of the internal control environment and which require to be addressed by management are included in the action plan at Appendix I.
4. The 2014/15 internal audit plan is substantially complete and our detailed review of internal audit work concluded that the work is of good quality and that we could place reliance on the planned areas set out in our 2014/15 Annual Audit Plan.

5. It is the responsibility of management to decide on the extent of the internal control systems appropriate to Shetland Islands Council. Any weaknesses identified represent those that have come to external audit's attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist.

Acknowledgement

6. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The high level of assistance and co-operation we received during the course of the audit is gratefully acknowledged.

Audit Scope and Objectives

Introduction

7. Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint one of its officers to have responsibility for those arrangements. In Shetland Islands Council the Executive Manager - Finance is the section 95 officer.
8. As section 95 officer, the Executive Manager - Finance is required to maintain a sound system of internal control. This assists the organisation in managing risk and helps in the attainment of organisational policies, aims and objectives. This report focuses on findings from our controls testing on the main financial systems.

Audit objectives and approach

9. Our responsibilities under the Code of Audit Practice require us to assess the systems of internal control put in place by management. In carrying out our audit, we seek to gain assurance that the council:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
10. The main systems that we have identified for review and which we plan to place assurance on for the 2014/15 financial statements audit are set out in Table 1 below. In accordance with ISA 330, para 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, the results of prior year audit work.

Table 1

Key System	Reliance on Prior Year Results	Detailed Review/Reliance on Internal Audit
Main Accounting	✓	
Payroll	✓	
Trade Payables	✓	✓
Trade Receivables	✓	
Cash & Cash Equivalents	✓	
Inventories		✓
NDR Billing & Collection	✓	
Council Tax Billing & Collection		✓
Housing Rents		✓
Treasury Management - Investments	✓	
Treasury Management - Borrowing		✓

Management action

11. A summary of those areas where identified risk exposure requires management consideration is included in Appendix I. Planned action, responsibilities and timescales for action in response to the identified risk exposure have been provided by management.
12. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to the council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Audit Findings

Internal audit

13. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.
14. Our 2014/15 Annual Audit Plan, issued in February 2015, explains that auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources.
15. Where it can be demonstrated that the means of achieving internal audit objectives are similar to those of external audit, the findings and results of internal audit exercises can be considered when determining the nature and extent of planned external audit coverage. This ensures that audit resources are used in the most efficient way and work is not unnecessarily duplicated.
16. The 2014/15 internal audit plan is substantially complete and our detailed review of internal audit work concluded that the work is of good quality and that we could place reliance on the planned areas set out in our 2014/15 Annual Audit Plan.

Systems of internal control

17. Audit work was carried out on the key systems detailed in Table 1 above. To obtain our controls assurance, testing strategies were developed and work completed during our visits in February to April 2015. The issues identified through our review, which require action by the council, are detailed below.

Inventories

18. Our review of the stock control arrangements at Sullom Voe identified areas where best practice has not been adopted. Areas where improvements require to be made include:
 - ensuring clear separation of duties between those who count stock and those who have access to the stock system
 - adopting a risk based approach when planning stock counts
 - ensuring those who count stock do not have access to the annual stock count schedule.
19. It should be noted that these issues were also reported in our 2013/14 Review of Internal Controls report.
20. Without robust stock management arrangements there is a risk that discrepancies are not identified or properly investigated.

Action Plan 1

Payroll

21. On an annual basis, the Payroll section issues a list of employees from the payroll system to each service department manager in order to obtain confirmation that the employees within their service department are still current employees. However, the employee lists sent out to each service department manager include details of all the employees at the council, including employee numbers and national insurance numbers, not just the employees in their service department.

Action Plan 2

22. Standard forms for new starts or leavers are saved into a shared network drive between the Human Resources (HR) section and the Payroll section. HR staff complete the relevant forms and save them into the drive which marks them as outstanding. The drive is then reviewed by payroll staff on a daily basis with the necessary action taken to set up or remove the employee on the payroll system. However, there is no formal communication between the HR and Payroll sections to notify when a form needs actioned, nor is there any record on the forms which identifies the member of the HR section who has authorised the change.

Action Plan 3

23. A standard form is completed by a payroll officer when an employee commences or ceases employment with the Council. This form is initialled and dated by the payroll officer as

evidence that the details have been input into the payroll system. However, this form is not checked by a second payroll officer independent of the input process to ensure accuracy.

Action Plan 4

24. From our review of the user access listing to the payroll system, we identified that a number of employees who have left the Council still have access to the system, including an employee who is on a career break.

Action Plan 5

Trade Payables

25. Staff in the Payments section produce a number of exception reports at varying frequencies during the financial year. The majority of these reports are stored electronically and details of any action taken are recorded on the reports. However two types of exception report, unpaid invoices and invoices registered but not confirmed, are run but no evidence is retained to demonstrate that these reports have been reviewed and appropriate action taken by officers.

Action Plan 6

Appendix I: Action plan

The table below sets out the recommendations to improve the control environment.

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
1	18	<p>Inventories</p> <p>Stock control arrangements at Sullom Voe do not follow best practice.</p> <p>Risk</p> <p>Stock discrepancies are not identified and the value of stock is incorrectly stated.</p>	<p>The stores function has been reviewed and it was identified that there was inadequate resource to undertake the stock control in line with best practice- two posts have been recruited to in the last few months to enable this issue to be resolved through better segregation of roles. The system improvements will be implemented once staff training and induction is complete</p>	<p>Director – Infrastructure Services</p>	<p>August 2015.</p>

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
2	21	<p>Payroll – annual verification</p> <p>Employee details sent out as part of the annual payroll verification exercise are not specific to each department and contain personal employee information including National Insurance numbers.</p> <p>Risk</p> <p>The council may not be complying with the requirements of the Data Protection Act.</p>	<p>The listing of all employees of the Council was attached in error in respect of the verification exercise carried out in 2014/15. The 2014/15 process is now complete and will be carried out again in late 2015/16. Payroll will ensure that only employees of each Service area are included in future exercises.</p>	Payroll Supervisor	31 March 2016
3	22	<p>Payroll – audit trail</p> <p>There is a lack of documentation that demonstrates that changes to be made to the payroll system have originated from, and been authorised by, the HR section.</p> <p>Risk</p> <p>Amendments may be made to the payroll system without proper authorisation.</p>	<p>Forms have been updated to detail HR Authorisation.</p>	Payroll Supervisor	31 May 2015

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
4	23	<p>Payroll – checking of changes</p> <p>Changes made to pay details in the payroll system are not evidenced as being checked by staff independent of those inputting the changes.</p> <p>Risk</p> <p>Any errors in inputting amendments to the payroll system may not be identified timeously.</p>	<p>It is acknowledged that carrying out this additional check represents best practice, and the additional cost of doing this, in a system that is well controlled, is unaffordable. The team seek to minimise any errors and evidence their work so that there is accountability and transparency of tasks and procedures are reviewed regularly to identify ways of improving the control environment.</p>	Payroll Supervisor	Ongoing
5	24	<p>Payroll – access to system</p> <p>Staff with access to the payroll system who leave the council do not have their access rights to the system removed promptly.</p> <p>Risk</p> <p>The payroll system may be inappropriately accessed and data corrupted.</p>	<p>HR will:</p> <ul style="list-style-type: none"> - e-mail team leaders and departmental administrators reminding them to complete Access Requests Forms - provide coaching to staff who complete the SAL forms and ensure they are clear on their role in ending CHRIS accounts - check that the quarterly reports are scheduled to be run regularly 	Executive Manager – Human Resources	31 May 2015

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
6	25	<p>Trade Payables</p> <p>Some of the exception reports run during the year are not retained as evidence to confirm that action has been taken to address any issues identified.</p> <p>Risk</p> <p>Potential anomalies identified in exception reports may not be followed up and addressed timeously.</p>	<p>Various exception reports are produced in the course of running the accounts payable process and documentation is kept on who and what actions are taken as a matter of course. As part of the management of the system, reports are run to monitor the progress of payment processing and authorisation and this is not always documented on the system. The system has controls within it to ensure that invoices and payments in the process do not get stuck – a process of escalation or re-routing exists – and this means that assurance can be placed on the system that issues will be followed up in a timely manner. Electronic exception reports are held that do evidence actions taken.</p>	Payments Supervisor	N/A

**Audit Committee****26 May 2015****Review of Internal Controls 2014/15 and Action Plan – Shetland Islands Council Pension Fund****F-020-F****Report Presented by Executive Manager – Finance****Finance Services****1.0 Summary**

- 1.1 The purpose of this report is to present the findings of the review of internal controls by Audit Scotland in relation to the 2014/15 Pension Fund accounts and approve the Action Plan to address the weaknesses identified.
- 1.2 There are no options to consider in reaching a decision. All identified weaknesses can be addressed within existing resources.

2.0 Decision Required

- 2.1 The Audit Committee RESOLVES to approve the Action Plan.

3.0 Detail

- 3.1 Each year, the external auditors undertake an assessment of the internal controls in operation for the Pension Fund, to determine whether they can place reliance on them in the preparation of the final accounts. Appendix 1 contains the Reports from Audit Scotland in full.

4.0 ImplicationsStrategic

- 4.1 Delivery On Corporate Priorities – None.
- 4.2 Community /Stakeholder Issues – None.

- 4.3 Policy And/Or Delegated Authority – The Audit Committee remit includes consideration of all reports from the external auditors as well as an overview of the regulatory framework, including systems of internal control.

As set out in paragraph 2.6 of the Council's scheme of Administration and Delegations, the Audit Committee is responsible for overseeing the production of the Council's Statement of Internal Controls under the regulatory framework, for which the Section 95 Officer is required to maintain.

- 4.4 Risk Management – The Section 95 officer is required to maintain a sound system of internal control. This assists the organisation in managing risk and helps in the attainment of organisational policies, aims and objectives. It ensures that assets are safeguarded and efficient and effective systems and procedures are in place.

- 4.5 Equalities, Health And Human Rights – None.

- 4.6 Environmental – None.

Resources

- 4.7 Financial – the actions to address the key weaknesses can be addressed within the approved budgets of the Pension Fund. This Report therefore has no direct financial implications.

- 4.8 Legal – None.

- 4.9 Human Resources – None

- 4.10 Assets And Property – None.

5.0 Conclusions

- 5.1 The annual review of internal controls by Audit Scotland has demonstrated that reliance can be placed on most of the Pension Fund's key financial systems. The items highlighted as weaknesses which require action will be addressed in line with the timescale set out in the action plan, set out in Appendix 1.

For further information please contact:
Steve Whyte, Executive Manager – Finance
Steve.Whyte@Shetland.gov.uk

Telephone:

Direct Line: 01595 74 4607

18/05/2015

List of Appendix

Shetland Islands Council Pension Fund Review of Internal Controls 2014/15

END



Shetland Islands Council Pension Fund

Review of Internal Controls 2014/15

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

May 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.

Contents

Summary	2
Introduction	2
Summary of findings.....	2
Acknowledgement	2
Audit Findings.....	3
Systems of internal control	3
Internal audit	3
Appendix I: Action plan	5

Key contacts

David McConnell, Assistant Director
dmcconnell@audit-scotland.gov.uk

Peter Lindsay, Audit Manager
plindsay@audit-scotland.gov.uk

Graeme Samson, Senior Auditor
gsamson@audit-scotland.gov.uk

Kyle McAulay, Professional Trainee
kmcaulay@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Switchboard: 0131 625 1500

Website: www.audit-scotland.gov.uk

Summary

Introduction

1. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan the audit and develop an effective financial statements audit approach.
2. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provides a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.

Summary of findings

3. The key controls operating within the financial systems of Shetland Islands Council Pension Fund have been subjected to testing by audit to ensure that they are operating satisfactorily.

4. No significant control weaknesses have been identified, however we have identified a small number of actions which would strengthen the control environment including:
 - conducting regular reconciliations between the data provided by the custodian, fund managers and the pension scheme general ledger
 - updating the Statement of Investment Principles to reflect the spread of current investments and to ensure compliance with the LGPS Management and Investment Funds (Scotland) Regulations 2010.
5. The 2014/15 internal audit plan is substantially complete and our review has found that internal audit work is of good quality.
6. It is the responsibility of management to decide on the extent of the internal control systems appropriate to Shetland Islands Council Pension Fund. Any weaknesses identified represent those that have come to external audit's attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist.

Acknowledgement

7. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The high level of assistance and co-operation we received during the course of the audit is gratefully acknowledged.

Audit Findings

Systems of internal control

8. Our audit approach included testing the following key financial systems:
 - Pension Investments
 - Pension Administration
9. To obtain our controls assurance, testing strategies were developed and work completed during our visits in February and March 2015. Our review involved the identification and assessment of the risks inherent in the key systems, and the adequacy of the procedures and controls in place to address these risks.
10. A summary of those areas where identified risk exposure requires management consideration is detailed below and included in Appendix I. Planned action, responsibilities and timescales for action in response to the identified risk exposure have been provided by management.
11. **Pension Investments – Reconciliations:** Monthly reconciliations between the pension scheme general ledger and the custodian records are carried out. However, we identified that the reconciliation for December 2014 had not been completed and reviewed until 20 February 2015, more

than 7 weeks after the period end. In addition, there is a quarterly reconciliation between the data provided by each investment fund manager and the custodian records. We identified that the reconciliation for December 2014 had not been completed and reviewed until 16 March 2015, more than 10 weeks after the period end. If reconciliations are not carried out on a timely basis, there is a risk that errors are not identified and the pension fund investments are incorrectly stated.

Action Plan 1

12. Pension Investments – Statement of Investment

Principles: The Pension Fund recently updated its Investment Strategy and awarded 3 new mandates in November 2014. As a result, the Statement of Investment Principles requires to be updated to reflect the spread of current investments and to ensure compliance with the LGPS Management and Investment Funds (Scotland) Regulations 2010. If the Statement of Investment Principles is not updated, there is a risk of non-compliance with legislation.

Action Plan 2

Internal audit

13. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems

and the reporting of any weaknesses to management for action.

14. Our 2014/15 Annual Audit Plan, issued in February 2015, explains that auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources.
15. Where it can be demonstrated that the means of achieving internal audit objectives are similar to those of external audit, the findings and results of internal audit exercises can be considered when determining the nature and extent of planned external audit coverage. This ensures that audit resources are used in the most efficient way and work is not unnecessarily duplicated.

Appendix I: Action plan

The table below sets out the recommendations to improve the control environment.

No.	Para Ref.	Recommendation	Responsible officer	Management response / Planned action	Target date
1	11	Reconciliations The current reconciliation process should be reviewed to ensure reconciliations are completed and reviewed on a more timely basis.	Treasury Accountant	The current monthly reconciliations will be reviewed to ensure more timely completion and review.	30 September 2015
2	12	Statement of Investment Principles The Statement of Investment Principles should be updated to comply with the LGPS Management and Investments Funds (Scotland) Regulations 2010.	Treasury Accountant	The Statement of Investment Principles will be updated to reflect the changes made in relation to the new investment strategy, which commenced on the 1 January 2015.	30 June 2015

**Audit Committee****26 May 2015****Local Government Benchmarking Framework – Corporate & Democratic Core 13/14****F-016-15-F****Executive Manager Finance****Corporate Services****1.0 Summary**

- 1.1 At its meeting of 3 February 2015 the Committee considered a report on “Local Government Benchmarking Framework: 2013/14 Indicators” (Report IA-01-15-F).
- 1.2 The Committee resolved to seek further explanation from the Finance Service on the figures used to compile the graph which referred to indicator CORP 2 “How much does my Council spend on supporting Elected Members?” (Min. Ref: 02.15).
- 1.3 This report provides the further detail and explanation requested.

2.0 Decision Required

- 2.1 That the Committee CONSIDER the information provided and NOTE the report.

3.0 Detail

- 3.1 The report entitled “Local Government Benchmarking Framework: 2013/14 Indicators” considered by the Committee on 3 February 2015 included within it reference to an indicator described as “How much does my Council spend on Elected Members?”, a copy of this is attached at Appendix A.
- 3.2 The figures shown in cost per 1,000 of population put Shetland Islands Council at the extremity of the national results – highest in Scotland - and out of place with other comparator small rural island authorities.
- 3.3 In seeking further explanation of the figures work has been done to breakdown the values that are contained within the figures to establish

for the Committee what the component parts are and whether they are comparable with other local authorities at any level.

- 3.4 It is worthy to note that the title of the indicator itself has been changed to that of “...spend on Elected Members” for 2013/14, from the “Cost of the Democratic Core per 1,000 population”. Therefore, as referred to in Appendix A, the calculation of the value is therefore not as straightforward as it first appears. A suitable breakdown of the costs that were included in 2013/14 is shown in the table below (with equivalent cost per thousand of the population):

Table 1		Expenditure per 1,000 population (Mid year 2013 = 23200)
CORPORATE AND DEMOCRATIC CORE COSTS	Gross Expenditure £'000	£
Democratic Representation & Management		
All Members allowances and expenses, inc. support costs	751,375	32,387
Costs associated with officer time spent on appropriate advice and support activities	2,189,349	94,368
Corporate Management		
Functions of the Head of Paid Service	346,607	14,940
Cost of Statutory External Audit	204,260	8,804
Cost of Treasury Management & Bank Charges	1,009,694	43,521
Other Corporate Management Activities *	2,352,706	101,410
Gross Cost 2013/14	6,853,991	295,431

* Other Corporate Management Activities includes the following range of activities, these being set out in the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA):

Maintaining statutory registers; providing information required by members of the public in exercise of their statutory rights; completing, submitting and / publishing all service staffing returns, Statements of Accounts, annual reports, public performance reports and formal financial reports of performance; estimating, negotiating, accounting for and allocating corporate level resources such as capital grants, general revenue grant, non-domestic rates and taxes; the cost of external inspections; and the costs of supporting a local strategic partnership.

- 3.5 Defining what is included in Democratic Representation and Management reveals a wide range of functions and activities with support provided to Members by way of office tasks, mail handling, library and ICT support costs being a basic element. There is also the professional advice and support provided to the democratic process; the functions of the monitoring officer; procedural and legal advice on the conduct of meetings; preparation of agendas and minutes; production of specific papers for Members and / or for meetings involving Members; following up queries or answering questions raised by members.

- 3.6 The guidance, called the Service Reporting Code of Practice and issued by CIPFA, has the purpose of getting values that are representative of the activities defined and comparable between local authorities.
- 3.7 The challenge of achieving this is not straightforward as a requirement for calculating the costs of much of the Corporate and Democratic Core is dependent on an assessment of how much time and resource is taken up carrying out this activity. This forms the basis for allocating costs between different functions and services and there are many approaches that are legitimate and prudent in carrying this out but there is no guarantee of a fully comparative value being placed against each function or service due to the huge range of factors that are taken account of. Examples might include the extent or otherwise of organisational changes being implemented, the treatment of bank and treasury fees, the number of individual committees and sub-committees and the frequency of these will all have a bearing on the outcome.
- 3.8 The Council has approached this exercise by requesting that each manager / section / team provide an estimate of the time and resources spent supporting the organisation, providing the necessary guidance and calculations have been based on the resulting data. These calculations enable costs to be allocated to the Services or to the corporate activities.
- 3.9 When the corporate values are finalised they are added to known specific data, such as the cost of the External Auditors fee, the value of Treasury and Bank fees and charges; and the salaries and expenses / allowances of Members. The total cost amounts to the figures used in this benchmarking framework.
- 3.10 The result is an accumulation of costs that are based on the view and opinion of many managers and officers across the Council who take a judgement based on the information provided to them and their awareness of what the component parts represent. This is a subjective process and the judgement of officers varies significantly between them.
- 3.11 In relation to some of the specific differences in the figures between Shetland and other local authorities, Shetland is unique as it accounts for the costs of treasury fund manager fees and bank charges as a corporate item – which for the other local authorities is accounted for through their loans fund, and charged against the cost of borrowing.
- 3.12 The value of that one item, costing the Council £1m in 2013/14 adds almost £44,000 per 1,000 of the population to the indicator, representing 15% of the value alone. It is in itself higher than the Scottish average for the value of all of the costs.
- 3.13 Understanding the component parts enables the Council to determine if there is any area that should be looked at in particular. All local authorities have specific costs relating to the salaries and expenses of Members (excluding any support costs) and they have an external

audit fee, details of both of which are publicly available from the Councils websites.

- 3.14 Having checked the indicators of the two other island local authorities and those of Aberdeen City Council the following table shows the impact of the drawing comparison across the four local authorities for those very specific components – both of which are included within the indicator referred to in this report.

Table 2

	Population Mid 2013	External Audit Fee 2013/14 £	Cost per 1,000 population £	No of Members	Members Salaries & Expenses 2013/14 £	Cost per 1,000 population £	Total Cost per 1,000 for two elements £
Shetland	23,200	204,260	8,804	22	488,197	21,043	29,847
Orkney	21,570	185,740	8,611	21	434,632	20,150	28,761
Eilean Siar	27,400	203,500	7,427	31	665,327	24,282	31,709
Aberdeen	227,130	410,400	1,807	43	932,576	4,106	5,913

- 3.15 Clearly table 2 above shows the striking difference between the much larger authority and the island authorities with the costs per 1,000 of the population being substantially lower simply due to the economies of scale. Both the value of the external audit fee and the number of councillors is approximately a factor of 2 when comparing Aberdeen City Council to the three island authorities but the population is a factor of 10. The cost per 1,000 of the population being approximately 5 times greater in the islands compared to the city.
- 3.16 The average cost per Member however is broadly similar at approximately £21,000 to £22,000 irrespective of the Council.
- 3.17 Also notable is that Shetland compares well with the other two island authorities in relation to these specific costs and it can therefore be concluded that this is not the area to concentrate on to understand the extreme nature of the resulting value of the indicator overall. Instead time must be spent looking at the subjective elements of the indicator and the time and resources data that is used to calculate the allocated management, support, advice and activity based costs.
- 3.18 The reasonableness and accuracy of published data is called into question when an indicator such as the one referred to in this report is published and in order to address this, in the current financial year the Finance team has been working towards refining the estimation techniques used and raising awareness with Services to improve this particular indicator.
- 3.19 Energy has also been directed at understanding what other local authorities include within these values to establish if other local authorities are omitting costs or approaching the calculation of expenditure that is allocated differently to ensure that the Council

provides a suitable comparative. A revised approach is therefore being taken for the 2014/15 calculations.

- 3.20 Referring back to table 2 above, the two elements shown in the table above indicate that in themselves for the three island authorities they would closely amount to the Scottish average alone for this indicator and as such it is not possible to seek to reduce Shetland's indicator to such a value. The expectation would remain that the local authorities with the smaller populations should logically be the higher cost authorities in this indicator and the work that the Finance team are doing will aim to better capture a comparative value in the future.
- 3.21 It is however vital that it is recognised that while costs have been included under this Corporate benchmarking indicator they have not therefore been included in Service benchmark figures, and where a reduction will likely be achieved through greater scrutiny in this indicator it will have a knock-on impact on other indicators as those costs are distributed elsewhere.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – This report is part of the Council's Corporate Plan commitment to *"provide good-quality information regularly through a variety of ways to tell people how we are doing and to make sure we take responsibility for our decisions"*.
- 4.2 Community /Stakeholder Issues – Effective performance management and continuous improvement are important duties for all statutory and voluntary sector partners in maintaining appropriate services for the public.
- 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 *"...to promote good performance management within the Council"*. Performance reporting is an integral part of performance management.
- 4.4 Risk Management – Embedding a culture of continuous improvement is a key aspect of the Council's improvement activity. Effective performance management is an important component of that which requires the production and consideration of these reports. Failure to deliver and embed this increases the risk of the Council working inefficiently, failing to focus on customer needs and being subject to further negative external scrutiny.
- 4.5 Equalities, Health And Human Rights – None.
- 4.6 Environmental – None.

Resources

- 4.7 Financial – No direct implications.

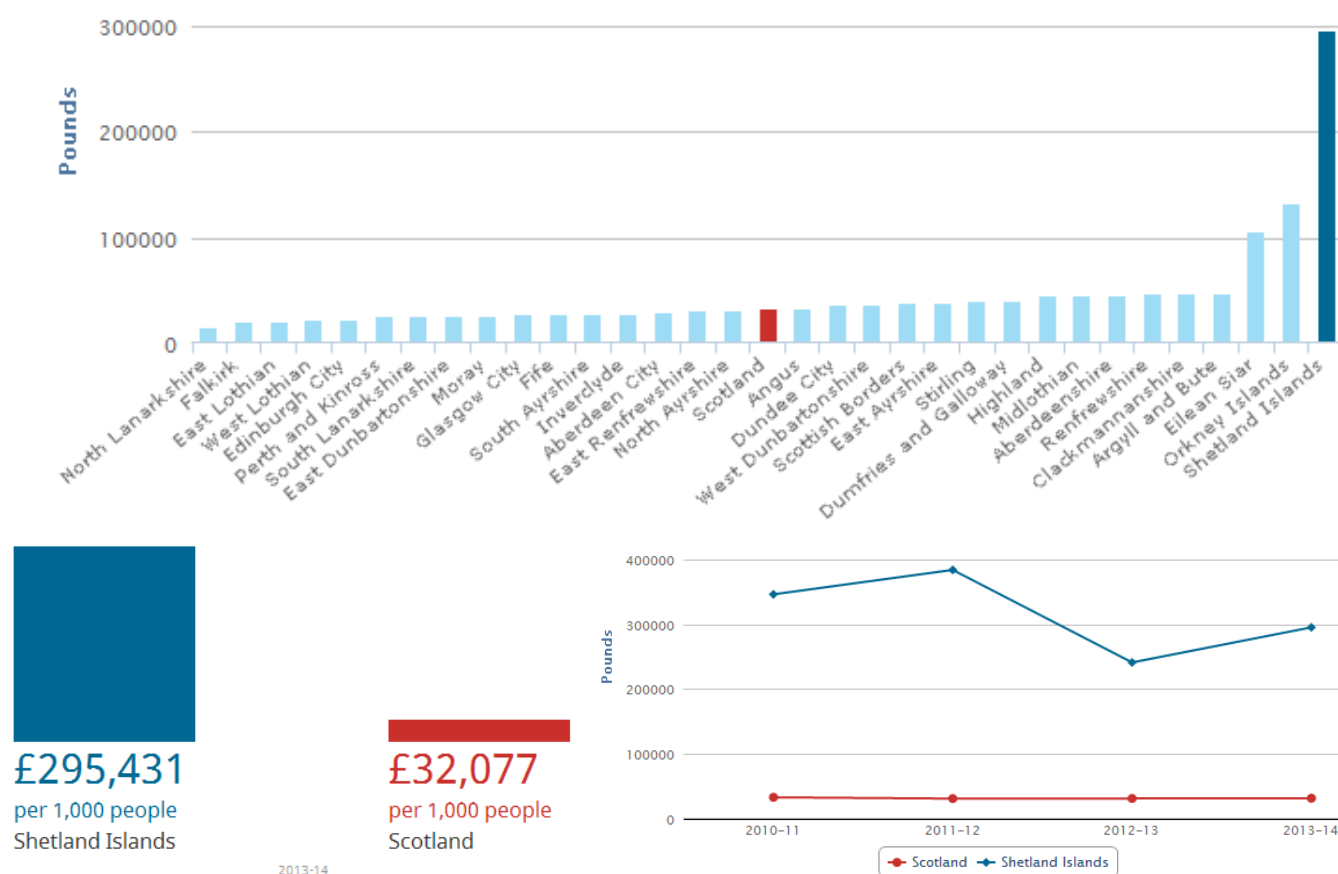
- 4.8 Legal – No direct implications.
- 4.9 Human Resources – No direct implications.
- 4.10 Assets And Property – No direct implications.

5.0 Conclusions

- 5.1 The report provides more detail and explanation of the corporate indicator referred to in the Local Government Benchmarking Framework for the Committee's attention. It outlines the work continuing to improve the methods used to collate and prepare the final values, understanding that costs not included under this corporate indicator will be recognised as costs associated with Service delivery and will, as a consequence, increase those costs.

For further information please contact:
Steve Whyte Executive Manager - Finance
01595 744607
Steve.Whyte@shetland.gov.uk

How much does my council spend on supporting elected members (£ per 1,000 people)?



2014/15 Target: £266,000

2015/16 Target: £250,000

Performance	Improvement
<p>This indicator extends beyond a simple definition of providing support to elected members. In compiling the data behind the total value it takes into account two categories of expenditure (i) Democratic representation and Management costs – <i>all aspects of members' activities in that capacity, including corporate, programme and service policy making and more general activities relating to governance and the representation of local interests</i>; and (ii) Corporate Management costs – <i>activities and costs that provide the infrastructure that allows service to be provided, whether by the authority or not, and the information that is required for public accountability</i>.</p> <p>2013/14 performance looks particularly poor in relation to other local authorities and the Council is looking in more detail at the costs</p>	<p>A substantial proportion of the value that is included in this indicator is generated from information that defines in cost terms how much of the internal resources of the council relate to the individual elements of Democratic Representation & Management and Corporate Management costs. This brings a significant amount of subjectivity to the values so the Finance team is working with services to refine and work towards being clearer about what the cost of these activities is and where to record them in the relevant financial returns.</p> <p>As a consequence of the Council starting to borrow money a loans fund will be established. As such Shetland will be able to legitimately charge its costs for treasury and bank charges which will make a positive impact on these figures.</p>

<p>that have been included in this area of expenditure to ensure that proper comparison can be drawn. An example where a clear difference exists between Shetland and other local authorities is in relation to the costs of treasury management – where fees to fund managers and for treasury transactions and bank charges are included in these figures for Shetland, the costs in other local authorities will have been applied to their loans fund. This is not available to Shetland because this authority has not had to borrow money, and as such fees in the order of £1M have been included. If this were not the case then this change alone would reduce the 2013/14 figure above by approximately £44,000.</p>	
--	--

**Audit Committee****26 May 2015**

Audit Committee Business Programme – 2015/16	
GL-16-15-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

19 May 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 Tuesday, 19 May 2015**

Audit Committee			
			<i>D= Delegated R=Referred</i>
Quarter 1 1 April 2015 to 30 June 2015	Date of Meeting	Business	D/R
	<i>Ordinary</i> 28 April 2015 10 a.m.	Audit Scotland and External Advisers Reports	D
		Internal Audit – Annual Plan 2015/16	D
		Local Government Benchmarking Framework – Corporate and Democratic Core 2013/14	Deferred
	<i>PPMF & Ordinary</i> 26 May 2015 10 a.m.	SIC Review of Internal Controls 2014-15	D
		Pension Fund Review of Internal Controls 2014-15	D
		Local Government Benchmarking Framework – Corporate and Democratic Core 2013/14	D
		Committee Business Programme 2015/16	D
	<i>Ordinary</i> 29 June 2015 10 a.m.	Audit Scotland and External Advisers Reports	D
		Internal Audit – Annual Report 2014/15	D
		Pension Fund Draft Accounts 2014/15	D
		SIC Draft Accounts 2014/15	D
		Zetland Educational Trust Draft Financial Statements 2014/15	D
Quarter 2 1 July 2015 to 30 September 2015	Date of Meeting	Business	
	<i>PPMF & Ordinary</i> 18 August 2015 10 a.m.	Audit Scotland Reports	D
		Committee Business Programme 2015/16	D
	<i>Special</i> 22 September 2015 9.30 a.m.	Pension Fund Final Audited Accounts 2014/15 & Report to those Charged with Governance	R SIC 22 Sept
		SIC Final Audited Accounts 2014/15 & Report to those Charged with Governance	R SIC 22 Sept
		Final Audited Zetland Educational Trust Annual Report and Financial Statements to 31 March 2015	R SIC 22 Sept
		Audit Scotland and External Advisers Reports	D
Quarter 3 1 October 2015 to 31 December 2015	Date of Meeting	Business	
	<i>Ordinary</i> 6 October 2015 10 a.m.	TBC	



Audit Committee - Meeting Dates and Business Programme 2015/16 as at Tuesday, 19 May 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 2015/16 - SIC	D
		Audit Scotland Annual Audit Plan 2015/16 – Pension Fund	D
		Committee Business Programme 2016/17	D

Planned Committee business still to be scheduled as at Tuesday, 19 May 2015

- Sumburgh Airport
- Code of Corporate Governance
- Risk Management Reports
- Public Performance Reporting Report

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 Tuesday, 19 May 2015