

**Audit Committee****25 May 2016****Audit Scotland and other External Audit Reports****Report No: IA-12-16-F****Report from: Executive Manager – Audit, Risk
and Improvement****Corporate Services****1.0 Summary**

- 111 This regular report provides an opportunity for the Audit Committee to consider and monitor progress on any recommended actions resulting from Audit Scotland and External Audit body reports which have been or will be presented to the functional Committees. It also provides an opportunity for the Committee to monitor compliance with the external audit reports reporting policy and procedures.

2.0 Decision Required

2.1 That the Audit Committee:

- 2.1.1 considers the progress statements provided by Lead Officers in Appendix 1, and makes any relevant comment on planned actions;
- 2.1.2 Note that reports previously presented to Social Services Committee will now be presented to the IJB, and that reports may also be presented to the relevant Audit Committee.

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 Service committee.
 - The Lead Officer would confirm when all agreed actions were implemented and completed.

- Reports will be presented to the Audit Committee to monitor progress against action plans.

4.0 Detail

- 4.1 Appendix 1 contains a list of the current reports for information. The progress statement is a recent statement received from Lead Officers; where no officer has given a progress statement Performance and Improvement staff provide the statement "Report will be or has been presented to XX Committee on XX date".
- 4.2 The Audit Committee is required to monitor the consideration of external audit reports by Committees in accordance with the agreed procedure and by reviewing progress against action plans. There are no overdue reports this cycle.
- 4.3 At the Audit Committee on 1st March 2016 there was a need for further clarification on reports previously presented to Social Services Committee. Views were sought from the Director of Health and Social Care and the conclusion is that reports previously presented to Social Services Committee will now be presented to the IJB, and that reports may also be presented to the relevant Audit Committee.

5.0 Implications

Strategic

- 5.1 Delivery On Corporate Priorities – Improved external engagement and sharing best practice are both elements of the Council's Improvement Plan.
- 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 remit includes "...review reports from the Council's External Advisors and review action on External Audit recommendations". This delegation supports the policy requirement and procedure for presenting External Adviser reports as set out in Section 3 above, and it is a matter for the Audit Committee to monitor and ensure compliance.
- 5.4 Risk Management - External advisors reports provide useful information 4.4 risk on best practice from other local authorities. A failure to deliver effective external engagement or to learn from best practice elsewhere increases the risk of the Council working inefficiently.
- 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 reports produced by the Council's External Auditors and Advisers provide valuable information for Committees and officers throughout the Council.

6.2 It is for the Audit Committee to be satisfied that appropriate and timely action is being taken in relation to Audit Scotland and other external audit reports, in accordance with Council Policy.

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17 May 2016

List of Appendices

Appendix 1 – List of External Auditors/Advisers Reports

END

Audit Committee - External Adviser's Reports - Progress

Generated on: 17 May 2016

Rows are sorted by Original Due Date

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Link
EA0026 Audit Scotland - Scotland's Colleges 2015	Irene Peterson	Development Services Directorate	02-Apr-2015	15-Jun-2015	11-Feb-2016	Report was presented to Shetland College Board on 11 February 2016.	Link to report http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges.pdf Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18860
EA0017 Accounts Commission - An overview of local government in Scotland 2015	Jonathan Belford	Policy & Resources Committee	05-Mar-2015	22-Jun-2015	18-Apr-2016	Report presented to Policy & Resources Committee on 18 April 2016.	Link to report: http://www.audit-scotland.gov.uk/docs/local/2015/nr_150305_local_government_overview.pdf Link to Committee report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5155
EA0028 Audit Scotland - Update on developing financial reporting	Jonathan Belford	Policy & Resources Committee	17-Mar-2015	22-Jun-2015	10-May-2016	Report was referred to in the Overall Q2 Outturn report to P&R on 25 November 2015.	Link to report http://www.audit-scotland.gov.uk/docs/central/2015/nr_150317_developing_financial_reporting.pdf http://www.audit-scotland.gov.uk/work/all_national.php?year=2014 Link to Committee report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=4755

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Link
EA0052 Accounts Commission - Scotland's public sector workforce - Impact report	Denise Bell	Policy & Resources Committee	04-Aug-2015	07-Dec-2015	02-May-2016	Many of the recommendations in this report will be covered by the forthcoming Workforce Strategy report which is due to be presented to Council in early 2016. Draft Workforce Strategy has now been completed and is under consultation with TUs. Workforce Strategy approved by P&R Committee on 18.4.2016 that will ensure delivery of recommendations between 2016 - 2020.	The draft Strategy and report will be presented to P&R committee in April 2016. Link to report:- http://www.audit-scotland.gov.uk/docs/central/2015/lr_public_sector_workforce.pdf
EA0046 Audit Scotland - The Moray Council: the Audit of Best Value and Community Planning - progress report	Crawford McIntyre	Audit Committee	29-Oct-2015	02-Mar-2016	03-Mar-2016	Report was presented to Policy & Resources Committee on 2 March 2016.	Link to report: http://www.audit-scotland.gov.uk/report/the-moray-council-the-audit-of-best-value-and-community-planning-progress-report-1 Link to Committee report: http://www.shetland.gov.uk/councils/agenda.asp?meetingid=4758
EA0062 Education Scotland - Burravoe Primary School	Audrey Edwards	Education & Families Committee	12-Jan-2016	11-Apr-2016	12-Apr-2016	Was presented to Education and Families Committee on 11 April 2016.	http://www.educationscotland.gov.uk/Images/BurravoePrimarySchoolIns20051017_tcm4-694506.pdf Link to Committee report: http://www.shetland.gov.uk/councils/agenda.asp?meetingid=5093
EA0065 Education Scotland - Aith Junior High School	Audrey Edwards	Education & Families Committee	19-Jan-2016	11-Apr-2016	12-Apr-2016	Was presented to Education and Families Committee on 11 April 2016.	http://www.educationscotland.gov.uk/Inspectionandreview/reports/school/primsec/AithJuniorHighSchoolShetlandIslands.asp Link to Committee report: http://www.shetland.gov.uk/councils/agenda.asp?meetingid=5093

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Link
EA0063 Audit Scotland - Argyll and Bute Council - Best Value Audit 2015	Crawford McIntyre	Audit Committee	17-Dec-2015	13-Apr-2016	01-Apr-2016	Was presented to Policy & Resources Committee on 2 March 2016.	Reported to Audit Committee March 2016 http://www.audit-scotland.gov.uk/report/argyll-and-bute-council-best-value-audit-2015 Link to committee report: http://www.shetland.gov.uk/councils/agenda.asp?meetingid=4758
EA0069 Audit Scotland - The City of Edinburgh Council: Best Value Audit 2016	Crawford McIntyre	Audit Committee	25-Feb-2016	13-Apr-2016	20-Apr-2016	No report was put up as as report was put to Committee Feb 15 highlighting issues at Edinburgh Council	No report put as done previously No report was put up as as report was put to Committee Feb 15 highlighting issues at Edinburgh Council http://www.audit-scotland.gov.uk/report/the-city-of-edinburgh-council-best-value-audit-2016
EA0066 Audit Scotland - Major Capital Investment in Councils: follow up	Robert Sinclair	Policy & Resources Committee	14-Jan-2016	18-Apr-2016	18-Apr-2016	Presented to Policy & Resources Committee on 18 April 2016.	Link to report:- http://www.audit-scotland.gov.uk/report/major-capital-investment-in-councils-follow-up Link to Committee report: http://www.shetland.gov.uk/councils/Agenda.asp?meetingid=5155
EA0068 Audit Scotland - Procurement in councils - Impact report	Robert Sinclair	Policy & Resources Committee	08-Feb-2016	18-Apr-2016	18-Apr-2016	Presented to Policy & Resources Committee on 18 April 2016.	Link to report:- http://www.audit-scotland.gov.uk/report/procurement-in-councils-impact-report Link to Committee report: http://www.shetland.gov.uk/councils/Agenda.asp?meetingid=5155
EA0080 Audit Scotland - Community Planning: An update	Vaila Simpson	Community Planning & Development	03-Mar-2016	13-Jun-2016		To identify lessons for Shetland from this Audit Scotland Report.	Link to report http://www.audit-scotland.gov.uk/report/community-planning-an-update

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Link
EA0082 Care Inspectorate - Fair Isle Primary School Nursery	Audrey Edwards	Children & Families	02-Mar-2016	13-Jun-2016	11-Apr-2016	Was presented to Education & Families Committee on 11 April 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281396 Link to report: http://www.shetland.gov.uk/coins/calendar.asp
EA0084 Care Inspectorate - Dunrossness Primary School Nursery	Audrey Edwards	Children & Families	02-Mar-2016	13-Jun-2016		To identify lessons for Shetland from this Care Inspectorate Report.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281556
EA0086 Audit Scotland - National Scrutiny Plan for Local Government 2016-17	Jonathan Belford	Audit Committee	31-Mar-2016	15-Jun-2016		To identify lessons for Shetland from this Audit Scotland Report.	Link to report:- http://www.audit-scotland.gov.uk/uploads/docs/report/2016/lsp_160331_shetland_islands.pdf
EA0085 Audit Scotland - An Overview of Local Government in Scotland 2016	Jonathan Belford	Policy & Resources Committee	17-Mar-2016	20-Jun-2016		To identify lessons for Shetland from this Audit Scotland Report.	Link to report:- http://www.audit-scotland.gov.uk/report/an-overview-of-local-government-in-scotland-2016
EA0070 Care Inspectorate - Fernlea (The Wishart Anderson Care Home)	Denise Morgan	Integration Joint Board	27-Feb-2016	24-Jun-2016	27-Apr-2016	Report was presented to the Integration Joint Board on 27 April 2016.	Link to inspectorate report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=280988 Link to report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5249
EA0073 Care Inspectorate - Overtonlea	Denise Morgan	Integration Joint Board	29-Feb-2016	24-Jun-2016	27-Apr-2016	Report was presented to the Integration Joint Board on 27 April 2016.	Link to inspectorate report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281069 Link to report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5249

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Link
EA0076 Care Inspectorate - North Haven Care Home	Denise Morgan	Integration Joint Board	01-Mar-2016	24-Jun-2016	27-Apr-2016	Report was presented to the Integration Joint Board on 27 April 2016.	Link to inspectorate report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281125 Link to report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5249
EA0078 Care Inspectorate - Isleshavn (Care Home)	Denise Morgan	Integration Joint Board	07-Mar-2016	24-Jun-2016	27-Apr-2016	Report was presented to the Integration Joint Board on 27 April 2016.	Link to inspectorate report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281252 Link to report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5249
EA0081 Audit Scotland - Changing models of Health and Social Care	Simon Bokor-Ingram	Integration Joint Board	10-Mar-2016	24-Jun-2016		To identify lessons for Shetland from this Care Inspectorate Report.	Link to report http://www.audit-scotland.gov.uk/report/changing-models-of-health-and-social-care-0
EA0083 Care Inspectorate - Wastview (Support Service)	Denise Morgan	Integration Joint Board	15-Mar-2016	24-Jun-2016		This report will be presented to the next Integration Joint Board in June 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281398
EA087 Care Inspectorate - Support @ Home	Denise Morgan	Integration Joint Board	17-Feb-2016	24-Jun-2016	27-Apr-2016	Report was presented to the Integration Joint Board on 27 April 2016.	Link to inspectorate report - http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=282021 Link to report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5249
EA0072 Care Inspectorate - Urafirth Primary School Nursery	Audrey Edwards	Children & Families	11-Feb-2016		11-Apr-2016	Was presented to Education and Families Committee on 11th April 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=280692 Link to Committee report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5093

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Link
EA0074 Care Inspectorate - Cunningsburgh Primary School Nursery Class	Audrey Edwards	Children & Families	01-Mar-2016		11-Apr-2016	Was presented to Education & Families Committee on 11 April 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281134 Link to Committee report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5093
EA0075 Care Inspectorate - Whalsay School Nursery	Audrey Edwards	Children & Families	11-Feb-2016		11-Apr-2016	Was presented to Education & Families Committee on 11 April 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281131 Link to report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5093
EA0077 Care Inspectorate - Sandwich Junior High School Nursery	Audrey Edwards	Children & Families	02-Mar-2016		11-Apr-2016	Was presented to Education and Families Committee on 11th April 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281172 Link to Committee report: http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5093
EA0079 Care Inspectorate - Fetlar Nursery	Audrey Edwards	Children & Families	09-Mar-2016		11-Apr-2016	Was presented to Education & Families Committee on 11 April 2016.	Link to report:- http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=281310 Link to report: http://www.shetland.gov.uk/coins/calendar.asp

**Audit Committee****25 May 2016****Review of Internal Controls 2015/16 and Action Plan – Shetland Islands Council and Shetland Islands Pension Fund****F-034-F****Report Presented by Executive Manager –
Finance****Finance Services****1.0 Summary**

- 1.1 The purpose of this report is to present the findings from the 2015/16 review of internal controls by Audit Scotland for both Shetland Islands Council (the Council) and Shetland Islands Pension Fund (the Pension Fund), 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:
- NOTE the 2015/16 Review of Internal Controls Report; and
 - APPROVE the Action Plan at appendix 1.

3.0 Detail

- 3.1 Each year, the external auditors undertake an assessment of the internal controls in operation to determine whether they can place reliance on them in the preparation of the annual accounts. Appendix 1 contains the Report from Audit Scotland in full, along with the action plan to address the weaknesses identified.

4.0 ImplicationsStrategic

- 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 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 concluded that the Council and Pension Fund's systems of internal control are operating satisfactorily.
- 5.2 A summary of those areas where identified risk exposure requires management consideration is included in Appendix I of the report along with the planned action, responsibilities and timescales for action.

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16/5/16

List of Appendix

Appendix 1 - Shetland Islands Council Review of Internal Controls 2015/16

END



Shetland Islands Council

Review of Internal Controls 2015/16

Prepared for Shetland Islands Council

May 2016

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. 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. This report sets out our findings in respect of both Shetland Islands Council and the Shetland Islands Council Pension Fund.

Summary of findings

3. Based on the results of our audit testing, our overall conclusion is that Shetland Islands Council and the Pension Fund's systems of internal control are operating satisfactorily.
4. 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.

5. The 2015/16 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 2015/16 Annual Audit Plan.
6. 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.

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 of the council and the pension fund.

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 2015/16 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	✓	

Key System	Reliance on Prior Year Results	Detailed Review/Reliance on Internal Audit
Pension Fund Administration	✓	
Pension Fund Investments	✓	

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 2015/16 Annual Audit Plan, issued in February 2016, 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 2015/16 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 2015/16 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 and March 2016. The issues identified through our review, which require action by the council, are detailed below.

Trade Payables

18. As part of our testing on the Trade Payables system we reviewed invoices for payments which had not passed through the purchase order system. For 5 of the 20 payments tested, officers were found to have authorised payments in excess of their delegated authority. Payments for £143k and £139k had been authorised by officers with delegated limits of £100k, a payment of £279k had been authorised by an officer with a delegated limit of £50k, and payments of £200k and £114k had been authorised by officers with delegated limits of £10k. There is therefore a risk that expenditure will not be subject to appropriate authorisation, and errors will not be identified. Officers processing payments should ensure that all payments are authorised by officers within the limits of their delegated authority.

Action Plan 1

Payroll

19. The payroll department run exception reports for each payrun which highlight unusual items (e.g. employee not paid in previous period, employee not paying NI contributions, employee's pay has changed significantly since prior period, etc.). These reports are checked by payroll to ensure that there are acceptable reasons for the exceptions, and the reports are signed by the payroll officer carrying out the check. However the staff performing the check are also involved in processing the changes to the payroll. There is a risk that errors are not identified or corrected if exception reports are not being reviewed by staff independent of payroll processing.

Action Plan 2

Inventories

20. In previous years we have reported that areas of the stock control arrangements at Sella Ness were not in line with best practice.
21. We are pleased to note that some improvements have been made and that there is now a separation of duties between those who count the stock and those with access to the stock system, and that staff who count stock no longer have access to the stock count schedule. A risk based approach to counting stock has also been implemented during the year.

22. However, as part of our work we identified that no second officer checks are carried out to ensure that stock quantities recorded on the AMOS (stock recording) system following stock counts agree with stock counting records. Without such a review, there is a risk that recorded stock levels will not accurately reflect stock held within the stores.

Action Plan 3

Pension Fund Administration

23. Shetland Islands Council Pension Fund payments to pensioners are processed through the Council payroll system. During our review of controls we examined the process carried out to set up payments for new pensioners. Calculations are performed to determine an initial part-month and then on-going monthly pension amounts. While we found that on-going monthly pension payment calculations were subject to second officer review, calculation of the first part-month payment were not reviewed. Errors made in performing this calculation or in posting the payment to the payroll system may therefore go undetected. Pension officers should ensure that all calculations are subject to second officer review to ensure potential over-payments are detected and corrected.

Action Plan 4

System Access

- 24. Our controls work included considering the appropriateness of officer access to the council's financial systems. In February 2016, the Council moved from a client based to a web based General Ledger platform (Integra). At this time, a review of officers with access to the Integra system was performed by the council, and 154 officers who had not accessed the system since April 2015 had their access removed. This indicates that officers may have continued to have access to the Integra system when not required to perform their roles.
- 25. Our audit work also included reviewing officer access to the Council's online banking system. Our review identified one officer on long term leave who continued to have access to the online banking system.
- 26. It is good practice to ensure access rights are regularly reviewed and updated to ensure only relevant officers can access and make changes to financial systems. Employees leaving their posts, or those on long-term leave, should have access to systems removed promptly to ensure only appropriate officers can gain access to the systems and that unauthorised changes within systems cannot be processed.

Action Plan 5

- 27. The council's ICT security policy specifies the requirements for passwords used to access council systems, including that they should be a minimum of nine characters, must be complex (i.e.

a mixture of upper, lower and at least one digit or special character) and changed every 90 days. The ICT department is implementing a single sign on system (which allows a user to access multiple systems while only having to enter one password) where possible during upgrades and replacements. It is noted that some of the existing systems are not able to be configured to enforce the level of complexity required in the council's security policy.

Action Plan 6

Business Continuity

- 28. The council's ICT department has expressed doubts that they will be able to meet some of the Recovery Time Objectives currently set out in their business continuity plan. The department is reviewing their backup process but due to unforeseen problems this work is taking longer than proposed. Once this task is completed, discussions with the rest of the council are planned to establish Maximum Tolerable Period of Disruption and Recovery Time Objective for the main corporate applications with the aim of producing prioritised list for restoring council systems. There is a risk that council services could be disrupted if applications could not be recovered promptly.

Action plan 7

General Issues

29. As we have previously reported, due to the small size of some finance functions it is not always possible for the council to ensure full segregation of duties. This ongoing situation was considered during our controls testing. We identified an absence of segregation of duties for several systems, although we also saw evidence of mitigating controls. The Council should continue to ensure that segregation of duties is in place wherever practicable.

Acknowledgement

30. 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.

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>Trade Payables</p> <p>Officers have authorised payments that are in excess of their delegated limits.</p> <p>Risk</p> <p>Payments may not be subject to appropriate authorisation and errors may go undetected.</p>	<p>A review of authorised signatories has begun and part of this project is to ensure that there is an up-to-date database of users with their delegated limits clearly defined. All officers will be informed of their limits.</p> <p>Additional steps have been added to the payments process to identify non-compliance of invoices not generated by the financial management system.</p>	Team Leader Expenditure and Team Leader Accountancy	September 2016

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
2	19	<p>Payroll</p> <p>Exception reports produced for each payrun are not reviewed by staff independent of those processing payroll changes.</p> <p>Risk</p> <p>Errors with payroll payments may not be identified or corrected</p>	Limited resources means that all payroll officers are processing payroll changes. However, in future, each payroll officer involved in processing payroll variances will ensure they get another member of staff to run reports and carry out checks on their payroll.	Team Leader Expenditure	June 2016
3	20-22	<p>Inventories</p> <p>There is no second officer check that quantities recorded on the stock system agree to stock count records.</p> <p>Risk</p> <p>Stock discrepancies may not be identified and the value of stock may be incorrectly stated</p>	A replacement senior stores assistant is now in place and fully trained.	Team Leader Engineering	Completed

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
4	23	<p>Pension Fund Administration</p> <p>Initial payments processed for new pensioners are not subject to second officer review.</p> <p>Risk</p> <p>Errors made in calculating an initial payment, or in posting the payment to the payroll system may go undetected, resulting in over-payment.</p>	On checking with Pension staff, the calculations are checked but to demonstrate this the paperwork will in future be signed off by the second reviewer.	Team Leader Expenditure	June 2016
5	24-26	<p>System Access</p> <p>Leavers and officers on long-term leave do not have their access to systems withdrawn promptly.</p> <p>Risk</p> <p>Individuals may be able to access systems and process unauthorised transactions.</p>	A review of authorised signatories has begun and part of this project is to implement a process for regularly reviewing those who have access to the system to ensure leavers and officers on long term leave are removed from the system.	Team Leader Accountancy	September 2016

No.	Para Ref.	Issue / Risk	Management response / Planned action	Responsible officer	Target date
6	27	<p>Password access</p> <p>Some of the existing council systems are not able to be configured to enforce the level of complexity of the council's ICT security policy.</p> <p>Risk</p> <p>Systems may be inappropriately accessed if passwords are not sufficiently secure.</p>	<p>The network password complexity requirements have been enforced in order to protect ensure an intrinsically secure environment. There is an ongoing programme of work to introduce single-sign-on where possible and to maintain other systems to the latest versions which will allow systems administrators to enforce a more granular password control policy.</p>	Team Leader, ICT Projects and Analysis	Completed
7	28	<p>Business Continuity</p> <p>Recovery time objectives included within the ICT department's business continuity plan may not achievable.</p> <p>Risk</p> <p>Services may be disrupted if applications cannot be recovered promptly.</p>	<p>There is a current active project that is reviewing and improving the Backup and Recovery systems, processes and procedures.</p>	Team Leader, ICT Projects and Analysis	July 2016

**Audit Committee****25 May 2016**

Audit Committee Business Programme – 2016/17	
GL-25-16-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 1 April 2016 to 31 March 2017, 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 1 April 2016 to 31 March 2017, and RESOLVES to approve any changes or additions to the Business programme.

3.0 Detail

- 3.1 The Council approved the schedule of meetings for 2016/17 at its meeting on 16 December 2015 (Min Ref: 79/15).
- 3.2 It was agreed that the Business Programmes for each Committee would be presented to the Planning and Performance Management Framework (PPMF) meetings scheduled to be held week beginning 29 February 2016.
- 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 two 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 The Business Programme for 2016/17 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 2016/17 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:

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17 May 2016

List of Appendices

Appendix 1 – Audit Committee Meeting Dates and Business Programme 2016/17

Background documents:

Report GL-60-F: SIC Diary of Meetings 2016/17

<http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4785>



**Audit Committee - Meeting Dates and Business Programme 2016/17
as at Wednesday, 18 May 2016**

Audit Committee			
			<i>D= Delegated R=Referred</i>
Quarter 1 1 April 2016 to 30 June 2016	Date of Meeting	Business	D/R
	Ordinary 13 April 2016 2 p.m.	Corporate Improvement and the Management of Risk	D
		Internal Audit – Operational Plan 2016/17	D
	PPMF & Ordinary 25 May 2016 10 a.m.	Audit Scotland and External Advisers Reports	D
		Review of Internal Control 2015/16 and Action Plan	D
		Solan and Bonxie – Conclusion of Sale	D
		Committee Business Programme 2016/17	D
	Ordinary 15 June 2016 2 p.m.	Internal Audit – Annual Report 2015/16	D
		SIC Draft Accounts 2015/16	D
Quarter 2 1 July 2016 to 30 September 2016	Date of Meeting	Business	
	PPMF & Ordinary 31 August 2016 10 a.m.	Audit Scotland and External Advisers Reports	D
		Audit Scotland SIC Local Scrutiny Plan 2016/17	D
		Committee Business Programme 2016/17	D
	Special 21 September 2016 10 a.m.	Statutory Performance Indicators 2015/16	D
		SIC Pension Fund – Annual Audit Report on the 2015/16 Audit	D
		SIC Pension Fund – Final Audited Accounts 2015/16	D
		SIC – Annual Audit Report on the 2015/16 Audit	R SIC 21 Sept
		SIC – Final Audited Accounts 2015/16	R SIC 21 Sept
		Zetland Educational Trust – ISA 260 Report on the 2015/16 Audit	R SIC 21 Sept
		Zetland Educational Trust – Final Audited accounts 2015/16	R SIC 21 Sept



**Audit Committee - Meeting Dates and Business Programme 2016/17
as at Wednesday, 18 May 2016**

Audit Committee - Continued			
			<i>D= Delegated R=Referred</i>
Quarter 3 1 October 2016 to 31 December 2016	Date of Meeting	Business	
	<i>Ordinary</i> 5 October 2016 10 a.m.		
	<i>PPMF & Ordinary</i> 12 December 2016 10 a.m.	Audit Scotland and External Advisers Reports	D
		Internal Audit – Six Monthly Internal Audit Progress Report 2016/17	D
		Risk Review Action Plan - Update	D
		External Quality Assessment of the Internal Audit Service	D
		Audit Scotland and other External Audit Reports – Best Value reports	D
		Committee Business Programme 2016/17	D
Quarter 4 1 January 2017 to 31 March 2017	Date of Meeting	Business	
	<i>Ordinary</i> 8 February 2017 2 p.m.		
	<i>PPMF & Ordinary</i> 8 March 2017 10 a.m.	Local Government Benchmarking Framework 2015/16	D
		Audit Scotland and External Advisers Reports	D
		Deloitte's Scotland Annual Audit Plan 2016/17 - SIC	D
		Deloitte's Annual Audit Plan 2016/17 – Pension Fund	D
		Committee Business Programme 2017/18	D

Planned Committee business still to be scheduled as at Wednesday, 18 May 2016

- Sumburgh Airport
- Code of Corporate Governance
- Process for Reporting from the IJB to the Council's Audit Committee

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 Wednesday, 18 May 2016