

Executive Manager: Jan-Robert Riise
Director: Christine Ferguson

Governance and Law
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If calling please ask for
Louise Adamson
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Date: 14 June 2017

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Auditorium, Shetland Museum and Archives, Hay's Dock, Lerwick
Wednesday 21 June 2017 at 2pm

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Mr A Duncan
Vice-Chair: Ms C Hughson

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
- (d) Confirm the minutes of the meeting held on 8 March 2017 (attached).

Items

1. Internal Audit Annual Report for 2016/17
IA-12-17-F
2. Annual Governance Statement 2016/17
F-56-17-F
3. Internal Audit Operational Plan for 2017/18
IA-13-17-F



Meeting(s):	Audit Committee	21 June 2017
Report Title:	Internal Audit – Annual Report 2016/17	
Reference Number:	IA-12-17F	
Author / Job Title:	Crawford McIntyre – Executive Manager – Audit, Risk & Improvement	

1.0	Decisions / Action required:
1.1	That the Audit Committee note the contents of the Annual Report and comment accordingly.
2.0	High Level Summary:
2.1	This report presents the Audit Committee with the Annual Report of the activity of the Internal Audit Service for 2016/17.
2.2	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance
2.3	The purpose of Internal Audit, as defined in the Audit Charter, is to reassure Council Members that: <ul style="list-style-type: none"> • there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided, and • the Council's systems of internal control, corporate governance and risk management are both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.
3.0	Corporate Priorities and Joint Working:
3.1	This report which provides Members with an update on audit activity, contributes to improving the arrangements for Member engagement in monitoring Council performance and contributes to high standards of governance, excellent financial management arrangements and working in a more effective way.
4.0	Key Issues:
	<u>Annual Report 2016/17</u>
4.1	Appendix 1 details the Internal Audit activity for 2016/17, with a brief description of key audit issues identified since the interim report to the Audit Committee in

December 2016 (Min. Ref.: 27/16). Full copies of most Internal Audit reports, the Audit Universe, the Internal Audit Charter and the Annual Operational Plan can be found on Internal Audit's page on the Council Internet.

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

- 4.2 Managers have undertaken to rectify issues through the agreed action plans to a satisfactory degree.
- 4.3 Within service areas subject to Internal Audit review, and assuming implementation of the recommendations made, reasonable assurance can be placed upon the controls in operation.
- 4.4 Follow up audits were undertaken in relation to a number of issues identified in 2015/16. The areas reviewed were all categorised as Key Audit Issues when they were initially identified and are as follows; Engagement of relief workers within Community Care, Webroster, Access audits and the Corporate Landlord Model within Asset and Properties, stock control within ICT, compliance with the Working Time Regulations, contractual arrangements with individuals and preventing illegal working through the application of the Immigration, Asylum and Nationality Act 2006 (known as the 2006 Act) .
- 4.5 The majority of these areas have been satisfactorily progressed. However, it is disappointing that areas of concern continue to be identified in the following areas:
- relief workers within Community Care continue to work excessive hours and are still being engaged in blocks of continuous employment without the required rest breaks. It was further identified that there is no system in place to monitor the cumulative number of hours worked by an individual where they are working in more than one location.
 - employees who are exceeding the 48 hour weekly average are not always completing the form to opt out of the working time regulations.
 - during a corporate review on Recruitment and Selection it was identified that preventing illegal working requirements are not always being fully adhered to.
- 4.6 Responsibility rests with managers to update progress on agreed courses of action. Quarterly reports are presented to Directors highlighting agreed actions which have passed their agreed implementation date. It then becomes the appropriate Director's responsibility to progress. Any ongoing matter of particular concern would be reported to the Chief Executive and thereafter the Audit Committee.
- 4.7 Prime areas of concern identified during 2016/17 were: a lack of adequate control in the payment of adoption allowances, procedural issues in processing sales invoices, lack of a Service Plan in Transport Planning, procedural requirements not always observed in recruitment processes and the follow up issues not adequately progressed as referred to in 3.6 above.
- 4.8 In addition work undertaken by risk management staff as part of the risk check process identified areas where risk assessments were not in place or not to a satisfactory standard. As a result of this work a Council wide corporate review in relation to risk assessments will be undertaken as a joint piece of work between – internal audit, risk management and health & safety.

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

Internal Audit Resourcing

- 4.10 Internal audit resource has been reduced over the last few years and the 2017/18 plan reflects the resource available.
- 4.11 There is now a very restricted contingency within the internal audit plan but some resource is available to fund one off investigations and specialist audit work where necessary.
- 4.12 Staff will continue to progress individual training plans in line with corporate priorities and objectives and within budgetary constraints.
- 4.13 One of the internal auditors is currently progressing through the CIPFA Accountancy qualification.

Internal Audit Performance

- 4.14 For 2016/17, Internal Audit performed 92% of the Audit Plan. This compares to 90% completion in 2014/15. This is directly attributable to the hard work of Internal Audit staff in a continuing period of significant change.
- 4.15 The performance target of issuing draft final reports within 14 days of audit testing completion was achieved in all cases.
- 4.16 Internal questionnaires completed and returned by auditees continue to indicate a high level of satisfaction with the service received. These are discussed at regular team and quality assurance meetings

Quality Assurance & Improvement Programme

- 4.17 Quarterly Internal Quality review meetings are held between the Executive Manager and the Internal Auditors. In addition regular team meetings and ongoing quality checks are undertaken.
- 4.18 There are no significant areas of concern being identified from these meetings that Audit Committee should be aware of. Areas discussed routinely are PSIAS (Public Sector Internal Audit Standards) non conformities, developing trends, recurring issues, actions taken, outstanding issues, service performance, review of policy/templates, customer feedback and recommendations for improvement.
- 4.19 The audit plan is undertaken in accordance with the principles incorporated within the Internal Audit Charter. The work of the Internal Audit Service helps to meet the aspirations of the Corporate Plan and help link the "golden thread" of the Council's Corporate Plan, Directorate Plans, Service Plans, Internal Audit Plan, Employee Review and Development reviews and Training Plans.
- 4.20 The above all contributes towards compliance with PSIAS.

PSIAS

- 4.21 A new set of professional standards based on the mandatory elements of the Institute of Internal Auditors (IIA) International Practices framework came into force on 1 April 2013.
- 4.22 A review of the Council's Internal Audit was undertaken by the Chief Internal Auditor from the Western Isles in August 2015 and was reported to Audit Committee. A further review should be undertaken prior to August 2020.
- 4.23 Following implementation of the minor recommendations of the review and taking into account minor amendments to PSIAS Shetland Islands Council Internal Audit Service fully complies with these standards and code of ethics.

Fraud / National Fraud Initiative (NFI)

- 4.24 The Council's Strategy for the Prevention and Detection of Fraud and Corruption requires that all suspicions of impropriety must be reported to the Executive Manager – Finance and the Executive Manager – Audit, Risk & Improvement.
- 4.25 All frauds over £5,000 require to be reported to Audit Scotland. For 2016/17 no issue was formally reported.
- 4.26 Instances of fraud/ theft are relatively rare in the Council. However, it is essential that adequate controls remain in place and are observed to try and ensure this remains the case.
- 4.27 A new NFI data matching process is being undertaken. The Executive Manager – Finance has provided assurance that the process will be undertaken appropriately by the Council.

SLACIAG (Scottish Local Authorities Chief Internal Auditors Group)

- 4.28 The annual report of SLACIAG for 2016/17 forms part of this report as Appendix 2. SLACIAG meets quarterly, and in addition there is a Computer Audit Sub Group (CASG) that meets 3 times a year.
- 4.29 The Executive Manager – Audit, Risk & Improvement and an Internal Auditor contribute to these groups and regularly attend meetings although frequency of attendance has reduced due to budgetary constraints.
- 4.30 The Executive Manager – Audit, Risk & Improvement is currently a member of the SLACIAG Committee.

5.0 Exempt and/or confidential information:

- 5.1 "None".

6.0 Implications:

6.1 Service Users,

The Council must ensure best value in the delivery of services. The work of Internal Audit and the Audit Committee can provide

Patients and Communities:	assurance in this regard.	
6.2 Human Resources and Organisational Development:	As a number of issues highlighted in this report have HR implications as set out in paragraph 4.5 there has been close working with Human Resources. Staff health and wellbeing is a priority for the council and work is underway, led by HR working with relevant services to identify why these matters continue to be a challenge and how best to address them.	
6.3 Equality, Diversity and Human Rights:	None directly arising from this report.	
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds.	
6.5 Finance:	The work of internal audit contributes towards effective financial stewardship within Shetland Islands Council.	
6.6 Assets and Property:	None arising directly from this report.	
6.7 ICT and new technologies:	There is provision within the audit plan to undertake IT audit work on an annual basis.	
6.8 Environmental:	None directly arising from this report.	
6.9 Risk Management:	Whilst no specific risk can be attributed to this report, Internal Audit facilitates reduction of risks identified as a result of work undertaken. This can only be the case if management act as per agreed actions plans to deal with issues identified by Internal Audit	
6.10 Policy and Delegated Authority:	The Audit Committee remit includes consideration of audit matters and to oversee and review action taken on audit activity	
6.11 Previously considered by:	None	N/A

Contact Details:

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Executive Manager – Audit, Risk & Improvement

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6 June 2017

Appendices:

Appendix 1 – Summary Report for 2016/17

Appendix 2 – SLACIAG Annual Report 2016/17

END

Audit	Auditee	Progress Report / Key Audit Issues
Housing	Executive Manager – Housing	Reported to Audit Committee December 2016.
Schools	Executive Managers – Schools & Quality Improvement.	<p>The Retention and Destruction Schedule in relation to Pupil Progress Records appears to contradict legislative requirements which may breach data protection. However, the Team Leader – Administrative Services advises there is a current moratorium in relation to the destruction of pupil progress records so updating our schedule has been put on hold until this has been lifted.</p> <p>In addition to this, a number of financial issues were raised covering peripatetic mileage claims (also raised in a previous audit), unpaid leave, school fund/trip administration and out of hours school usage which indicates some lack of financial control. Other audit issues were also identified.</p> <p>Commitment was given to address issues identified.</p>
Transport	Executive Manager – Transport Planning Operations	<p>A number of audit issues were identified during the course of the audit.</p> <p>It was also identified that Transport Planning did not have a Service Plan available for 2016/17; this was subject to a key observation.</p> <p>Commitment was given to address issues identified.</p>
Planning – Building Standards	Team Leader – Building Standards	There were no key audit issues but three audit issues were identified.



		Commitment was given to address issues identified.
Children's Resources c/fwd from 15/16. Report finalised June 2016.	Executive Manager – Children & Families Executive Manager – Children's Resources	Reported to Audit Committee December 2016.

Investigations / Reviews	Reported to:	
SUMS College	Acting College Principal – Shetland College	Report issued.
Hardship Fund	Acting College Principal – Shetland College	Report issued.
LEADER Funding	Executive Manager – Economic Development	Report issued.
Performance Indicators	Internal	Review undertaken.
Recruitment	Executive Manager – Human Resources	Key audit issues were identified in the following key areas: <ul style="list-style-type: none"> • candidates have been appointed who appear to have not met all of the essential criteria on the job specification • evidence of relevant qualifications has not always been obtained



		<ul style="list-style-type: none"> required documentation has not been returned to the Recruitment Team by the panel chair. <p>This was due to be reported to CMT on 13/6/17.</p>
Sales Invoices	Executive Manager - Finance	<p>Several audit issues were identified and are detailed below:</p> <ul style="list-style-type: none"> Not all invoices were charged at the correct rate, allocated the correct VAT code or the correct General Ledger Code in accordance with the Schedule of Rates. Not all invoices were raised timeously. Not all invoices raised were over £30. Not all invoices stated the quantity and unit costs accurately. <p>The Executive Manager - Finance undertook to re-emphasise the requirement to follow proper procedure.</p>
Scottish Welfare Fund	Executive Manager - Finance	Carried forward to 2017/18.
Hansel / Comfort funds	Executive Manager - Finance	Covered as part of Schools audit. No significant issues identified.
Council National Fraud Initiative (NFI) Arrangements	Team Leader - Revenue & Benefits	Reported to Audit Committee December 2016.
Capital Project – New AHS	Executive Manager – Capital Programme	Reported to Audit Committee December 2016.
Physical & Environmental Security	Executive Manager - ICT	No audit issues identified.



Back-up systems	Executive Manager - ICT	Carried forward to 2017/18.
Service Desk Incident Problem management	Executive Manager - ICT	No audit issues identified.
Systems Access	Various	Ongoing.
PSIAS Audit Orkney	Orkney Islands Council	Reported to Audit Committee December 2016.
Follow up audit monitoring	CMT	<p>The areas reviewed were all categorised as Key Audit Issues when they were initially identified and were as follows; Engagement of relief workers within Community Care, Webroster, Access audits and the Corporate Landlord Model within Asset and Properties, stock control within ICT, Working Time Regulations, contractual arrangements with individuals and preventing illegal working.</p> <p>A number of these areas have been satisfactorily progressed however, it is disappointing that areas of concern continue to be identified in the following areas:</p> <ul style="list-style-type: none"> • relief workers within Community Care continue to work excessive hours and are still being engaged in blocks of continuous employment without the required rest breaks. It was further identified that there is no system in place to monitor the quantity of hours worked where employees are working in more than one location. • employees who are exceeding the 48 hour weekly average are not always completing the form to opt out of the working time regulations. • during a corporate review on Recruitment and Selection it was identified that preventing illegal working requirements are not being fully adhered to. <p>This was due to be reported to CMT on 13/6/17.</p>



H & SCI Joint Board	H & SCI Joint Board	Report to be presented to IJB Audit Committee once finalised.
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SCOTTISH LOCAL AUTHORITIES

Chief Internal Auditors' Group

ANNUAL REPORT FROM THE CHAIR – 2016

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group ;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2016.

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2016

- 2.1 SLACIAG met four times during 2016:
- 18 March 2016 – hosted by Aberdeenshire Council;
 - 17 June 2016 – hosted by Scottish Borders Council;
 - 9 September 2016 – hosted by CIPFA Scotland; and
 - 25 November 2016 – hosted by North Lanarkshire Council.
- 2.2 All of the meetings were very well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing at a time of such significant change across Local Government generally and for Internal Audit in particular. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams as well as Heads of Internal Audit.
- 2.3 As usual, the Group held its Annual General Meeting in March 2016. At that meeting, new office bearers were appointed with Andrea McMahon (Renfrewshire Council) succeeding Jill Stacey (Scottish Borders Council) as Chair Paul Doak being appointed as Secretary and Kevin O'Kane, being appointed as Treasurer, following the resignations of Gordon O'Connor (Falkirk Council) and Kenneth Ribbons (West Lothian Council) who had served the Group for many years. The outgoing Treasurer provided an update on the Group's finances, which continue to show a healthy financial position. This allowed the subscription rates to be held at the current level for the following year and enabled very good value training opportunities to be provided. Eilidh Mackay (East Ayrshire Council) agreed to assume the role of Vice Chair during the year.
- 2.4 As well as allowing the Group to conduct its AGM business, the March meeting provided the opportunity to continue some of the themes from the previous year including corporate fraud and health and social care integration. Sharon Murphy provided an insight into the work Glasgow City Council were doing in relation to corporate counter fraud. There was group discussion in relation to

health and social care integration and the arrangements for working with Health Board Auditors around areas such as the Annual Governance Statement. David Hughes (Aberdeen City and Aberdeenshire Council's) delivered an informative presentation around his experience and challenges for shared Internal Audit Services.

- 2.5 Philip Barr, Depute Chief Executive, Scottish Borders Council presented to the Group on the importance of involving Internal Audit throughout any significant process of change at the June meeting. Ronnie Nicol and Katherine Sibbald from Audit Scotland provided an overview of the new approach to the audit of Best Value. An overview of the Community Empowerment (Scotland) Act 2015 was provided by Ian Turner from the Scottish Government on the national picture and Shona Smith (Scottish Borders) from a local perspective.
- 2.6 The September meeting was a joint meeting with the Heads of Internal Audit from NHS Boards, this extended Group meeting heard from Fiona Mitchell-Knight from Audit Scotland on the findings arising from their first round on annual audits of the Integration Joint Boards and Gordon Neill from Audit Scotland presented to the Group on their first national review of integrated health and social care. The Group followed up with a discussion on partnership working and potential conflicts of interest in relation to auditing the Integration Joint Boards.
- 2.7 Detective Inspector Ricky Hutton delivered an interesting presentation to the Group on the work of the Police Scotland Anti-Corruption Unit over the last 3 years as well as the future direction of the unit. SEEMIS Company Secretary, Roddy Shearer presented to the Group on the governance arrangements and future development plans for the organisation. This followed with a Group discussion on how individual councils could rely on assurances from SEEMIS auditors.
- 2.8 During the year the Group developed a Knowledge Hub site for the Group, to allow for sharing of documentation and a member's communication forum. Membership of the Knowledge Hub continues to grow and is open to Heads of Internal Audit and their teams.
- 2.9 In line with the Group's objective to develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government, the group participated in the Internal Audit Standards Advisory Board's consultation on changes to the Public Sector Internal Audit Standards.
- 2.10 Due to the variations between Scottish and English legislation in relation to counter fraud, it was recognised that there was an opportunity to develop an accredited counter fraud qualification specific to the Scottish legislative framework. Working with CIPFA's Head of Business Development the programme for the training was developed and is now available to practitioners with a role in counter fraud.
- 2.11 There are 26 councils currently participating in the SLACIAG peer review approach to External Quality Assessment (EQA) to meet the 2013 Public Sector Internal Audit Standards requirement that Internal Audit sections undergo periodic (at least 5 yearly) external assessment against the Standards. 5 reviews were completed during 2016/17 bringing the total reviews completed to 9. The Chair of SLACIAG presented an overview of the EQA framework to the CIPFA Scotland Executive.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings, which are hosted by Councils, continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. In the past year, presentation topics have included: SEEMIS security and management, Records Management, Payment Card Industry Data Security Standard (PCI-DSS), Business Continuity and Disaster Recovery, Social Media and Education Networks.

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

- 4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum and quarterly meetings are held with the Crown Office and Procurator Fiscal Service (COPFS). An additional meeting was held with COPFS in November to specifically discuss the details of a proposed revision to prosecution policy.
- 4.2 The Group has worked closely with the DWP in relation to joint working with Local Authorities where there is a DWP benefit in payment; specific areas of interest have been in relation to council tax reduction scheme (CTRS) fraud and tenancy fraud. West Dunbartonshire Council participated in a joint working pilot on CTRS fraud and there has been interest from the DWP in developing a further pilot in relation to tenancy fraud.
- 4.3 The Group has been engaging with the Scottish Government and the Chartered Institute of Housing, Scottish Federation of Housing Associations and Housing Networks to seek statutory powers in Scotland in relation to tenancy fraud.
- 4.4 The Group has heard from speakers on topics of interest such as money laundering delivered by Police Scotland, procurement fraud work being undertaken by West Lothian Council and a presentation from the National Anti-Fraud Network (NAFN) on the intelligence available to investigators.

5. SUMMARY

- 5.1 In summary, SLACIAG has had another very successful year, and I believe that, individually and collectively, the Group will continue to be at the forefront of developments, is well positioned to meet the considerable challenges of the future, and that our voice will continue to be heard as experts in matters of risk management, governance and control. Group members, in their Authorities, will continue to adapt as necessary to support their Board and Executive Management Teams to maintain delivery of well governed services in the context of reducing resources and significant transformation.
- 5.2 Specific challenges ahead for members and for the Group will include: implementing External Quality Assessments and continuing to respond to strategic developments within the public sector, including Health and Social Care Integration. However, the groundwork has been laid through the development focus of our meetings and our upcoming conference which will place members in a strong position to meet those challenges going forward.
- 5.3 Finally, I would like to take this opportunity to thank the Committee and all Group members for their strong support and contributions during my first year as Chair, and wish the Group every success for the future.

Andrea McMahon

Andrea McMahon (Chief Auditor, Renfrewshire Council)
Chair of SLACIAG
24 March 2017



Shetland Islands Council

Agenda Item

2

Meeting(s):	Audit Committee	21 June 2017
Report Title:	Annual Governance Statement 2016/17	
Reference Number:	F-056-F	
Author / Job Title:	Executive Manager – Finance	

1.0 Decisions / Action required:
1.1 That the Audit Committee APPROVES the Annual Governance Statement 2016/17 that will form part of the annual accounts (Appendix 1).
2.0 High Level Summary:
2.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a set of accounts, including an annual governance statement, by 30 June each year.
2.2 The intention is that local authorities review, at least annually, their system of internal financial control.
2.3 The 2016/17 annual accounts will be presented to the Council for approval on 28 June 2017.
3.0 Corporate Priorities and Joint Working:
3.1 The preparation and presentation of the Annual Governance Statement is a key element of the Council's overall governance and reporting arrangements.
4.0 Key Issues:
4.1 The format and content of the Annual Governance Statement follows guidance set out in CIPFA's 2012 publication 'Delivering Good Governance in Local Government: Framework Addendum' and includes the following key matters for members' consideration: <ul style="list-style-type: none"> • The Review of Effectiveness section outlines how the governance framework has been evaluated for 2016/17; • The Executive Manager – Audit, Risk & Improvement reports on any significant areas of risk in the Internal Audit Annual Report. The key items are highlighted here in the 'Significant Governance Issues' section; • Internal audit are content that, aside from the key areas noted, satisfactory progress had been made in addressing control weaknesses and that the Council's systems of internal control, corporate governance and risk management are both sound and effective ; • Following two five-year terms with Audit Scotland, the Council has a newly appointed external auditor for 2016/17: Deloitte LLP.
5.0 Exempt and/or confidential information:
5.1 None.

6.0 Implications :		
6.1 Service Users, Patients and Communities:	None	
6.2 Human Resources and Organisational Development:	None	
6.3 Equality, Diversity and Human Rights:	None	
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a set of accounts, including an annual governance statement, by 30 June each year.	
6.5 Finance:	None	
6.6 Assets and Property:	None	
6.7 ICT and new technologies:	None	
6.8 Environmental:	None	
6.9 Risk Management:	The Annual Governance Statement highlights areas of significant risk and actions being taken to address them.	
6.10 Policy and Delegated Authority:	<p>The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity.</p> <p>The preparation and presentation of the Annual Accounts, incorporating the Annual Governance Statement, is a key element of the Council's overall governance and reporting arrangements.</p>	
6.11 Previously considered by:	N/A	

Contact Details:

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21 June 2017

Appendices:

Appendix 1: Shetland Islands Council Annual Governance Statement 2016/17

Background Documents: *The Local Authority Accounts (Scotland) Regulations 2014 and Internal Audit – Annual Report 2016/17 (21 June 2017)*

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure continuous improvement in the way it operates.

In discharging this accountability, the Council is responsible for establishing proper arrangements for the governance of its affairs, including arrangements for the management of risk.

The Council approved and adopted its code of governance in 2012. It is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. This statement explains how the Council has complied with the code.

The Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and the activities through which it engages with its community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2017 and up to the date of approval of the annual accounts.

The key elements of Shetland Islands Council's governance framework are:

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- the levels at which decisions can be made, referred to as the Scheme of Administration and Delegations;
- the Standing Orders and the rules around how committees are run and decisions are made;
- the Financial Regulations and rules about contracting with other parties;
- the Council's performance in relation to delivering services and securing value for money; and
- the process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

In March 2017, the Council approved a revised set of governance documents, including the Scheme of Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance. These documents can be found on the Council's website at: http://www.shetland.gov.uk/about_how_we_work/constitutionandgovernance.asp

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance environment, the annual report of the Executive Manager – Audit, Risk & Improvement, and also by comments made by external auditors and other review agencies and inspectorates.

The effectiveness of the Council's governance framework has been evaluated as follows:

- Each **director** has reviewed the arrangements in their portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2016/17, no areas of weakness or concern were raised.
- The Council's **financial management** arrangements comply with the requirements of the CIPFA Statement on the Role of the

Chief Financial Officer in Local Government (2010).

- The Council **committee structure** supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- The **Audit Committee** remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.
- A professional, independent and objective **internal audit** service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The Council has a newly appointed **external auditor** for 2016/17, Deloitte LLP. They regularly report to the Audit Committee and their reports cover a wide range of year-end financial audits that are required at a local and national level.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Management Team and the Audit Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

Significant Governance Issues

During the year, the Audit Committee received a range of reports produced by Internal Audit that enabled scrutiny and questioning of officers, such that the Committee gained assurance about any weaknesses identified as well as the actions being taken to address them.

The following issues and related action plans were highlighted in Internal Audit's annual report as specific areas of concern:

- inappropriate employment of relief workers and the processes surrounding the monitoring of hours worked by employees working in multiple locations within community care;
- corporate breaches of working time regulations and overtime requirements, inconsistencies and procedure not being

followed in relation to preventing illegal working;

- recruitment process issues, including the appointment of candidates who have not met all of the essential criteria on the job specification and evidence of relevant qualifications not always being obtained;
- a lack of adequate control in the payment of adoption allowances;
- the lack of a Service Plan within Transport Planning; and
- procedural issues in relation to sales invoices, such as invoices not always being raised timeously or stating the quantity and unit costs accurately.

Follow up work was carried out in relation to the issues highlighted in last year's Annual Governance Statement: Internal audit concluded that, aside from the areas still noted above, satisfactory progress had been made in addressing control weaknesses.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

.....
Cecil Smith
Leader of the Council
28 June 2017

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Mark Boden
Chief Executive
28 June 2017



Meeting(s):	Audit Committee	21 June 2017
Report Title:	Internal Audit – Operational Plan 2017/18	
Reference Number:	IA-13-17F	
Author / Job Title:	Crawford McIntyre – Executive Manager – Audit, Risk & Improvement	

1.0 Decisions / Action required:

- 1.1 That the Audit Committee RESOLVE to approve the planned coverage for 2017/18.

2.0 High Level Summary:

- 2.1 This report presents the Audit Committee the Internal Audit Operational Plan for 2017/18. This plan has been developed following individual consultation with all Directors and the Executive Manager – Finance.
- 2.4 A six-monthly report will be presented to the Audit Committee to monitor progress against the operational plan.

3.0 Corporate Priorities and Joint Working:

- 3.1 Delivery of the Internal Audit Operational Plan contributes to high standards of governance, excellent financial management arrangements, risks being managed appropriately and organisation performance being managed effectively in accordance with our 20/20 objectives.

4.0 Key Issues:

Operational Internal Audit Plan 2017/18

- 4.1 All Internal Audit assignments are performed in accordance with the annual operational audit plan. The plan is a schedule of assignments to be performed during the course of the financial year within the framework of the evolving Audit Universe which facilitates work being prioritised on higher areas of risk.
- 4.2 The plan was presented to and approved by CMT on 18th April 2017.
- 4.3 In consultation with the Director – Corporate Services the plan has been slightly revised to reflect the long term absence of one of the Internal Audit team and the resultant resource availability. This has resulted in the audit of Human Resources / Safety being deleted from the plan. It is intended this work will now be undertaken

early in 2018/19

- 4.4 The nature of audit work is such that there needs to be a degree of flexibility built into the planning process. Audit assignments may highlight areas which require more investigation to be undertaken than was originally planned, or special investigations may be requested as a result of the identification of an area of concern. For those reasons, the audit plan may change if staff are required to reprioritise their work plan to undertake other duties. The Committee is asked to note that there may be amendments to the Operational Plan for 2017/18 in order to prioritise staff resources as required during the year.

5.0 Exempt and/or confidential information:

- 5.1 "None".

6.0 Implications:

6.1 Service Users, Patients and Communities:	The Council must ensure best value in the delivery of services. The work of Internal Audit and the Audit Committee can provide assurance in this regard
6.2 Human Resources and Organisational Development:	None arising directly from this report although Human Resources issues are regularly reviewed as part of internal audit's work.
6.3 Equality, Diversity and Human Rights:	None directly arising from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds.
6.5 Finance:	The work of internal audit contributes towards effective financial stewardship within Shetland Islands Council.
6.6 Assets and Property:	None directly arising from this report.
6.7 ICT and new technologies:	There is provision within the audit plan to undertake IT audit work in 2017/18.
6.8 Environmental:	None directly arising from this report.
6.9	Whilst no specific risk can be attributed to this report, Internal

Risk Management:	Audit facilitates reduction of risks identified as a result of work undertaken. This can only be the case if management act as per agreed actions plans to deal with issues identified by Internal Audit	
6.10 Policy and Delegated Authority:	The Audit Committee remit includes consideration of audit matters and to oversee and review action taken on audit activity	
6.11 Previously considered by:	None	N/A

Contact Details:

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6 June 2017

Appendices:

Appendix 1 – Internal Audit Plan 2017/18

END

INTERNAL AUDIT - 2017/18 PLAN

A. INTERNAL AUDIT ASSIGNMENTS

Service Audits	Risk	Est. Staffing Days	Comments
Payroll & Pensions	M	40	2nd Quarter
Ferries	H	50	2nd Quarter
Train Shetland - Short Courses	M	20	3rd Quarter
Insurance	M	10	4th Quarter

120

Annual Reviews

Performance Indicators		5	2nd Quarter
Credits - Shetland College		10	3rd Quarter
Hardship Fund - Shetland College		2	3rd Quarter
LEADER		10	3rd Quarter

27

Corporate Reviews

Data Protection & Retention & Destruction – (to be developed to include information classification and information security) c/fwd	H	30	3rd Quarter in conjunction with Team Leader - Administration
Scottish Welfare Fund c/fwd	M	3	1st quarter
Contract Review	H	50	1st Quarter - Further contract review following on from previous work in this area.
Risk Assessments	H	30	1st Quarter - In conjunction with risk management and consultation with health and safety
Lair Reservation System	M	10	2nd quarter - Review new procedure
Absence Management	M	20	3rd Quarter
Grants	M	30	3rd Quarter - Grants to external bodies
Telematics	M	30	4th quarter review new system

203

IT Reviews

Back Up Systems cfwd	H	8	1st quarter
ICT Inventory Management	H	10	3rd quarter - Inventory across SIC
Network Access		5	3rd quarter - Access control - starters / leavers / amendments
ICT Business Continuity	H	5	3rd Quarter - Systems recovery
Project Boards		5	Ongoing
Systems Access		10	Relating to service audits
		43	

Other Issues for 17/18

Follow Up Audit Monitoring		5	Key audit issues from 16/17 audits - 3rd & 4th quarters
Integration Joint Board (IJB)		30	10 c/fwd 16/17 - 17/18 4th Quarter
		35	

B.CONTINGENCY, ADMINISTRATION & MANAGEMENT

Subject	R/Order	Staffing Days	Comments
Service Management		70	
Contingency		17	
Administrative Duties		50	
Estimate		137	
TOTAL STAFFING DAYS REQUIRED		565	
TOTAL STAFFING DAYS AVAILABLE		565	

C/fwd Audit Plan 16/17			
Dat Protection & Retention & Destruction		30	2nd quarter
IJB		10	1st quarter
Back up systems		8	1st quarter
Scottish Welfare Fund		3	1st Quarter

SUPPORTING NOTES

FTE
0.33
2
0.81
<u>3.14</u>

Criteria used for Staffing Day Availability				Staff Days
Total Staffing Days		(52 x 5) =	260 x 3.14	816
Less:				
Holiday Entitlement		(34 x 2.81 + 32 x 0.33) &10 c/fwd		-116
Training / SLACIAG & CASG / CIPFA Study		10 + 20 + 20		-50
Public Holidays		(6 x 3.14)		-19
Long Term sick leave (est)				-50
Sickness (est.)		(5 x 3.14)		-16
				-251

Staffing Days Available - per annum	565
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