Shetland Islands Council

Executive Manager: Jan-Robert Riise
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Date: 8 July 2020

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Wednesday 15 July 2020 at 10am

Please note that because of the current COVID-19 (Coronavirus) emergency, and as permitted by legislation, this meeting will not be open to members of the public.

This meeting will take place by remote means, by video and teleconference, for Councillors and advising officers only. Joining details will be sent separately to those attending.

Public reports are available on the Council's website. The actions and decisions taken at the meeting will be published on the Council's website as soon as possible thereafter.

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 9 March 2020 (enclosed).

1.   Annual Governance Statement 2019/20
     F-031

2.   Internal Audit Report – Covid-19 Response
     CRP-16-20

3.   Internal Audit Summary Report
     CRP-17-20

4.   Internal Audit Annual Report 2019/20
     CRP-19-20

Shetland
Islands Council

MINUTES

B - Public

Audit Committee
Council Chamber, Town Hall, Lerwick
Monday 9 March 2020 at 2pm

Present:

A Duncan	J Fraser
C Hughson	S Leask
M Lyall	R McGregor
I Scott	C Smith

Apologies:
A Manson

In attendance (Officers):
S Bokor-Ingram, Director of Community Health and Social Care
C Ferguson, Director of Corporate Services
D Bell, Executive Manager – Human Resources
J Best, Executive Manager – Community Care Resources
J Manson, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
J Robinson, Executive Manager – Allied Health Professionals
S Duncan, Management Accountant
M Duncan, External Funding Officer
E Cripps, Internal Auditor
R McNeillie, Internal Auditor
K Collins, Financial Accountant
L Adamson, Committee Officer

Also In Attendance:
J Campbell, Senior Audit Manager – Glasgow City Council
F Scott, Senior Audit Manager – Glasgow City Council
C Healy, Audit Manager, Deloitte LLP
E Macdonald, SIC

Chairperson
Mr Duncan, Chair of the Committee, presided.

Circular
The circular calling the meeting was held as read.

The Chair ruled that due to special circumstances, namely that due to the timescales involved, the following items of business were to be considered at this meeting as a matter of urgency in terms of paragraphs 3.2.2 of the Council's Standing Orders for Meetings:

- Item 2: Internal Audit – Audit Plan 2020/21
- Item 3: Internal audit Summary Report

Declarations of Interest

Mrs Lyall declared an interest in the report at item 4.

Minutes

The Committee confirmed the minutes of the meeting held on 18 November 2019 on the motion of Mr Leask, seconded by Mr Scott.

01/20   **Annual Audit Plans 2019/20 for Shetland Islands Council and Shetland Islands Council Pension Fund**

The Committee considered a report by the Executive Manger - Finance (F-016-F) that presented the planned audit work by the Council's external auditors, Deloitte LLP, for the 2019/20 financial year, as set out in the Shetland Islands Council and Shetland Islands Council Pension Fund Audit Plans.

In referring to the Audit Plan for Shetland Island Council, the Audit Manager, Deloitte LLP advised on the background to the Plan being risk focused, and he reported that this was the fourth of the 5-year approach that Deloitte have been performing the Council's Audits. The Audit Manager outlined to the Committee the key messages, the significant risks identified and how these will be addressed. He reported on the other areas of focus, the wider scope requirements, the approach taken to materiality and the audit fee. He also advised on the timing of the audit activity, with the final report to be presented in September 2020.

The Chair thanked the Audit Manager for the comprehensive introduction of the Audit Plan.

In referring to a former risk that had related to the Valuation of Property Assets, it was questioned whether a report would be presented to Committee on how the issues identified had been addressed. The Audit Manager confirmed that Valuation of Property Assets was no longer a significant risk, and that for 2018/19 the only issue reported in that area relates to the acquisition of SLAP. He concluded that a report could be prepared, however it was unlikely there would be any change to the risk ranking.

In response to a question relating to the impact of the Coronavirus on the stock market and the drawdown of reserves, the Audit Manager said that investments are volatile by nature, and that a prudent sustainable draw on reserves would need monitoring on an annual basis. He added that from a one-off event the Council may not want to change its longer-term focus.

In response to questions, the Audit Manager outlined the process followed to set the materiality figure, as reported on Pages 6 and 8 of the Audit Plan. He referred also to the requirement for Audit Committee to be satisfied that the level of materiality is appropriate. Following further comments that the judgement on materiality can be subjective and down to interpretation, a request was made for the external auditors to report on the misstatements identified below the trivial threshold level of £159k, and to also inform on the number of instances and cumulative totals.

During the discussion, reference was made to the audit findings that the Council was not meeting all of its obligations under the Community Empowerment Act, when only recently Shetland has been held as an exemplar in that area. The Audit Manager advised that the conclusion being referred to in the audit report related to the previous year, and the audit findings would be updated in the next Audit Plan.

Reference was then made to the Wider Scope Requirements, on page 26 and 27 of the Audit Plan, and while it was noted that improvements were being made, there were still areas that required attention. In that regard a request was made for quarterly reporting to Committee. In responding, the Audit Manager reminded Members that the planning report for the audit was risk focused. He went on to advise that the interim report in June 2020 would provide an update on the areas highlighted, and there would also be the Best Value audit work undertaken. He said however that officers could present quarterly to Committee to ensure the issues highlighted are being addressed, and the annual Audit Plan would provide the independent assurance action is being taken.

During further discussion, the request was confirmed for the report to Committee on the misstatements identified below the materiality threshold level. Dialogue would also take place with officers regarding the request for quarterly reporting to Committee on the improvements being made on the audit risks identified in relation to the four audit dimensions.

The Audit Manager then outlined to the Committee the key messages, scope and approach to the Audit Plan 2019/20 of the Council's Pension Fund.

The Audit Manager reported that this would be the last year the audit of the Pension Fund would be presented to Audit Committee. In that regard, he advised on the historical practise that the audit of the Pension Fund has been appended to that of the Council. In going forward the audit of the Pension Fund will be reported only to the Pension Fund Committee. In response to a question, the Executive Manager – Governance and Law confirmed satisfaction with the change of reporting, advising that the Audit Committee carries no additional fiduciary duty. He advised that the Pension Board meets concurrently with the Pension Fund Committee, and therefore there would also be the additional element of external scrutiny.

Decision:

The Audit Committee **CONSIDERED** and **NOTED** the contents of the Audit Plans 2019/20 for Shetland Islands Council and Shetland Islands Council Pension Fund, from the Council's external auditors, Deloitte LLP.

02/20   **Internal Audit - Audit Plan 2020/21**
The Committee considered a report by the Chief Internal Auditor (CRP-06-20-F), which presented the Internal Audit Plan for 2020/21.

In introducing the report, the Senior Audit Manager (J Campbell) advised on the requirement for an external assessment of internal audit functions

every five years, and that an assessment of the Council's audit function would be undertaken by Western Isles Council during 2020/21. She advised that the outcome of the assessment would be reported to Audit Committee in due course. In referring to the table on page 4 of the covering report, which illustrated the planned days per audit category, the Senior Audit Manager advised that she would circulate colour copies to Members of the Committee.

The Senior Audit Manager then referred the Committee to the Council's Internal Audit Plan, at Appendix 2, which lists the audits to be undertaken during 2020/21. She explained that with an increased number of audits planned, the focus will be on key risk areas rather than wider reviews. Mrs Hughson however sought reassurance on the ability to deliver the Audit Plan for 2020/21, in light of the vacancy within the Council's audit team as reported in Section 4.14 of the report. The Senior Audit Manager advised that the Council's Audit Team are supported to carry out fieldwork by the Audit Team in Glasgow City Council. The team in Glasgow can step in to assist and provide additional support, should that be necessary, to complete the Audit Plan 2020/21.

In responding to a question regarding the inclusion of an audit of the Integration Joint Board (IJB), as referred to in the table on Page 4, the Senior Audit Manager explained that the Audit Team were also the auditors for the Integration Joint Board. She confirmed that only one audit of the IJB would be would be undertaken, and there would be no areas of duplication in that area.

Reference was made to Appendix 2, where it was noted that the areas of "risk assessments" and "health and safety" had not been audited since 2017. The Senior Audit Manager advised that an audit was currently being undertaken on Risk Management arrangements, which she suggested could include areas of health and safety. She said that if that was not found to be the case, the "risk assessments" and "health and safety" audits would be added to the Audit Plan for 2020/21 or in future years.

During debate, Mr C Smith referred to the significant risks associated with areas of health and safety and risk assessments, and he stated that he would expect these audits to be undertaken during 2020/21. The Senior Audit Manager advised that she would follow this up with management, and provide clarity to Members of the Committee on the audits of "Risk Assessments" and "Health and Safety" being undertaken.

On the motion of Mr Duncan, seconded by Mrs Hughson, the Committee approved the recommendation in the report.
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Decision:

The Audit Committee **APPROVED** the Audit Plan 2020/21.

03/20   **Internal Audit Summary Reports**
The Committee considered a report by the Chief Internal Auditor (CRP-07-20-F), which provided Members with an overview of the work

undertaken by Internal Audit to 29 February 2020 as part of the agreed 2019/20 Internal Audit.

In introducing the report, the Senior Audit Manager (F Scott) reminded the Committee on the four levels of audit opinion. In referring to Section 4 of the report, the Senior Audit Manager outlined to the Committee the scope and recommendations from the three audits undertaken, namely, Members Expenses, Starters and Leavers and ICT Change Control.

In responding to a question on the Starters and Leavers audit, the Senior Audit Manager advised on the findings that the full induction process was not being consistently applied in some areas of the Council, and that improvements are to be made to ensure a more consistent approach.   In response to a concern that new starts could be financially disadvantaged should processes not be consistently applied or through officer error, the Executive Manager – HR confirm the well-established system in place that would follow up on payments required.

During debate, concern was expressed at the findings in the ICT Change Control audit that there were instances whereby staff who have left the Council were still able to access the Council's ICT system, and that this was an issue that had to be addressed.

Comment was made on the importance for Managers to be made aware of the findings and recommendations from the audits, and to ensure improvements are monitored going forward. In response to a comment from the Chair, in terms of reporting back to Committee with assurance that the recommendations from the audits have been complied with, the Director of Corporate Services advised that the Committee receive regular reports on the actions being taken forward on the audit findings. She suggested however, that should earlier assurance be sought, a briefing note could be circulated to Members of the Committee. After hearing the Senior Audit Manager advise on the follow up process on the audits, that managers have agreed the actions to be addressed, the Committee agreed there was no requirement for an interim report, and that due process would be followed.

Decision:

The Audit Committee **NOTED** the content of the report.

In order to avoid the disclosure of exempt information, Mr Duncan moved, Mr Leask seconded, and the Committee RESOLVED to exclude the public in terms of the relevant legislation during consideration of the following item of business.

(*Mrs Lyall declared an interest in the following item, advising that the report refers to a period when she was a member of staff at the Walter and Joan Gray Care Home. Mrs Lyall left the meeting*).

(*Mr C Smith left the meeting during the following item.*)

04/20   **External Provider Residential and Day Care Services, Walter and Joan Gray, Scalloway**

The Committee considered a report by the Executive Manager – Community Care Resources, which provided Members with performance information in relation to the provision of residential and day care services at Walter and Joan Gray (W&JG) Care Home, Scalloway as required by the Audit Committee on 25 September 2019.

The Executive Manager – Community Care Resources summarised the main terms of the report, advising on the contractual arrangements between the Council and Crossreach, the areas of improvement identified following Care Inspectorate Inspections.

The Committee proceeded to questions and discussion, and received responses from officers on matters of concern and for clarification. Following a short adjournment, the Committee moved to debate the recommendations in the report.

During debate, the Chair thanked all officers who had been involved in preparing the report, and in that regard, he acknowledged the hard work to move to a satisfactory conclusion. In referring to the decisions as set out in the report, the Chair proposed a briefing to the next meeting of Audit Committee. Mr Leask referred to the concerns within the community on the delivery of services at the W&JG Care Home, but said he was heartened on the possibility of a new and reconfigured manner in which care at the W&JG Care Home can be distributed. He said that the community have for years had an emotive connection to the W&JG Care Home and it would be good to see its future stability, recognising that good partnership working can take place between the Council and Crossreach to make sure everything is in a good situation.

Following further discussion and debate, the Committee RESOLVED, following a vote, to

- **NOTE** the contents of the report which provided details of the provision of residential and day care services by Crossreach at Walter and Joan Gray, Scalloway and the conclusion in terms of the Performance Management Framework 2019-2024

- **NOTE** the usage and outcomes under the current contract; , and

- **NOTE** that a report for a decision in relation to future contractual provisions will be presented to the Integration Joint Board. Subsequent reports will be presented to the Policy and Resources Committee (to advise of any service change in line with the overall framework of strategies contained in the policy framework) and the Audit Committee for performance management purposes in due course.

The meeting concluded at 4.50pm.

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Chair

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		Agenda Item
	Shetland Islands Council	**1**

Meeting(s):	Audit Committee	15 July 2020
Report Title:	Annual Governance Statement 2019/20	
Reference Number:	F-031-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Audit Committee RESOLVES to APPROVE the Annual Governance Statement 2019/20 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, which includes an annual governance statement, by 30 June each year.

2.2 Due to the Coronavirus pandemic, and in line with Schedule 6 paragraph 8(2) of the Coronavirus (Scotland) Act 2020, the Council is postponing the publication of the unaudited annual accounts to 20 July 2020.

2.3 All Local Authorities are required to prepare an Annual Governance Statement that sets out the extent to which the Authority complies with its own code of corporate governance, and in turn how it demonstrates compliance with the CIPFA/SOLACE '*Delivering Good Governance*' Framework.

2.4 The draft Annual Governance Statement is attached at Appendix 1, and pending approval by the Audit Committee, will form part of the unaudited 2019/20 annual accounts.

2.5 The 2019/20 unaudited annual accounts will be presented to the full Council for approval on 15 July 2020.

3.0 Corporate Priorities and Joint Working:

3.1 The preparation and presentation of the annual accounts 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 2016 publication '*Delivering Good Governance in Local Government*' and includes the following key matters for Members' consideration:

- The **Review of Effectiveness** section outlines how the governance framework has been evaluated for 2019/20;

- Audit Glasgow, who provide the operational and strategic planning, professional management and reporting for the Council's Internal Audit

function, report on any significant areas of risk in the Internal Audit Annual Report. The key items are highlighted here in the **Significant Governance Issues** section;

- The **Internal Audit Opinion** section outlines the Chief Internal Auditor's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20 in the Council for the period before the change to service delivery models in March 2020.

4.2   Additional information has been incorporated into the draft Annual Governance Statement that summarises the Council's actions as it began to respond to the COVID-19 pandemic from mid-March 2020. The statement includes the measures the Council put in place to:

- maintain business continuity, particularly in respect of essential and business-critical services

- Ensure the safety and wellbeing of its staff, elected members and contractors

- Allow the Council to conduct urgent business by way of virtual meetings.

4.3   In summary, the Statement confirms that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's governance arrangements and internal control environment.

5.0	**Exempt and/or confidential information:**

5.1   None.

6.0	Implications :
6.1 **Service Users, Patients and Communities:**	None arising from this report.
6.2 **Human Resources and Organisational Development:**	None arising from this report.
6.3 **Equality, Diversity and Human Rights:**	None arising from this report.
6.4 **Legal:**	Schedule 6 paragraph 8(2) of the Coronavirus (Scotland) Act 2020 allows the Council to postpone its publication of the unaudited annual accounts that are required to be published under The Local Authority Accounts (Scotland) Regulations 2014. If publication is postponed, a statement must be published to that effect on or before the date by which the report is due, or as soon as reasonably practicable after the date. The Council published this statement on 17 June 2020.
6.5 **Finance:**	None arising from this report.

6.6 **Assets and Property:**	None arising from this report.
6.7 **ICT and new technologies:**	None arising from this report.
6.8 **Environmental:**	None arising from this report.
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:**	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. 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.
6.11 **Previously considered by:**	*n/a*	*n/a*

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1 July 2020

Appendices:
Appendix 1: Shetland Islands Council Draft Annual Governance Statement 2019/20

Background Documents:
The Local Authority Accounts (Scotland) Regulations 2014 and Internal Audit – Annual Report 2019/20

END

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 has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

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 Corporate Governance in 2017. 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 role of Chief Internal Auditor is undertaken by the Head of Audit and Inspection at Glasgow City Council, through an arrangement with Audit Glasgow, the commercial arm of Glasgow City Council's Internal Audit team. This arrangement provides the operational and strategic planning, professional management and reporting for the Council's Internal Audit function.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Council is directed and controlled, and the activities used to engage with and lead the 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, cost effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk at acceptable levels, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise risks, and their associated impacts should they crystallise, and to manage them efficiently, effectively and economically.

The Governance Framework

The governance framework adopted by the Council is consistent with the with the seven core principles of the revised 2016 CIPFA/SOLACE framework and is pictured below, showing each of the seven principles and how they interact with one another.

Principles A and B contain the overarching principles of good governance which percolate down through the remaining principles

The governance framework has been in place for the year ended 31 March 2020 and up to the date of approval of the annual accounts.
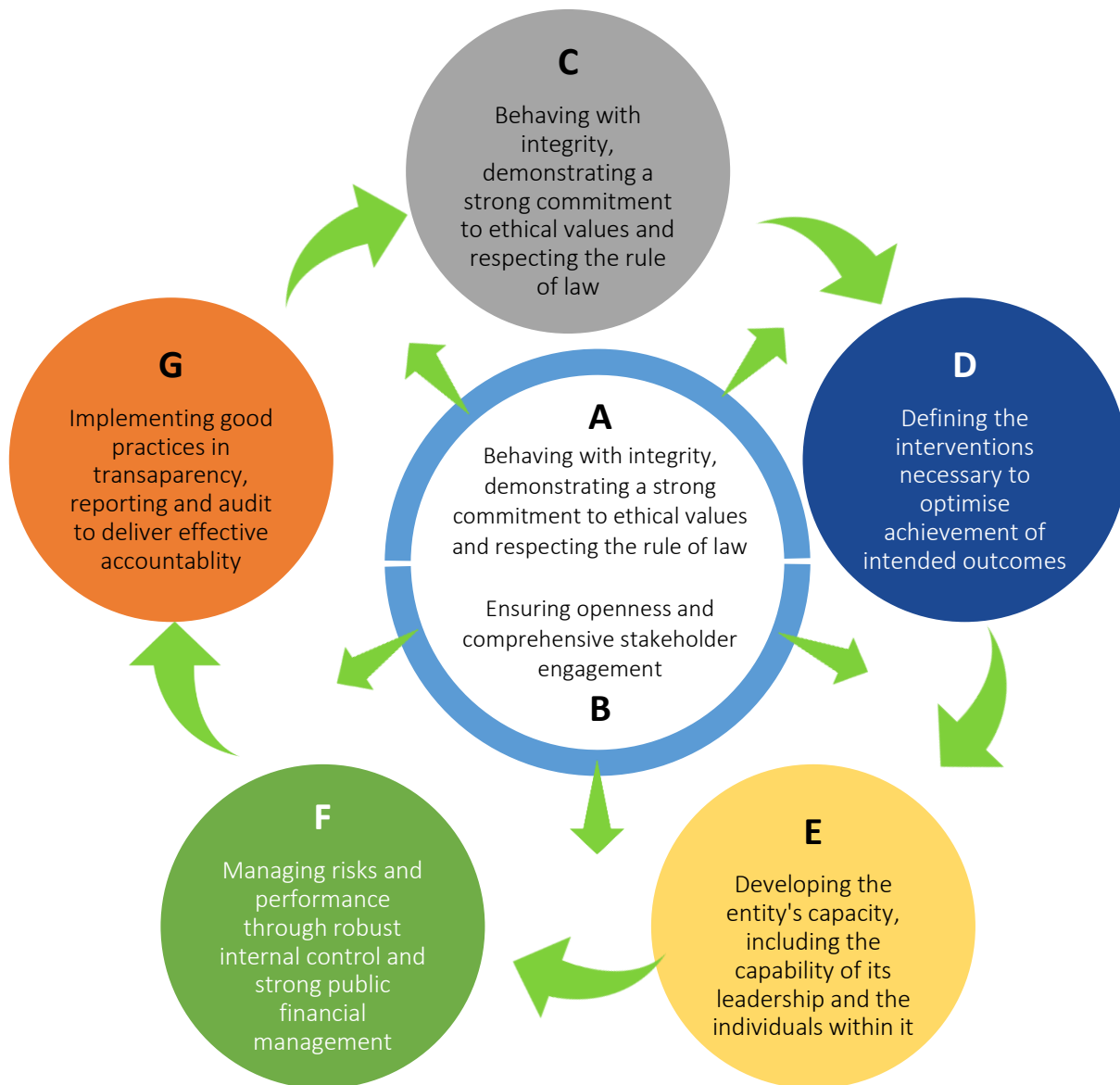
The key elements of Shetland Islands Council's governance framework are:

- 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 function and others.

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

The Seven Principles of Good Governance:

C
Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law

G
Implementing good practices in transaparency, reporting and audit to deliver effective accountablity

A
Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law

Ensuring openness and comprehensive stakeholder engagement

B

D
Defining the interventions necessary to optimise achievement of intended outcomes

F
Managing risks and performance through robust internal control and strong public financial management

E
Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council is in the process of reviewing the Governance Framework. Initial findings were reported to Council on 11 June 2019, and included approval of an updated Code of Corporate Governance. A further update is due to be presented to Council in 2020.

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 Internal Audit Annual Report presented by Audit Glasgow, and also by comments made by external auditors and other review agencies and

inspectorates. The Annual Report can be viewed on

the Council's website at:
http://www.shetland.gov.uk/coins/calendar.asp.

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 2019/20, no areas of weakness or concern were identified;

- 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's committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout;

- The Council's Constitution promotes good decision-making and adherence to the Building Better Business Cases methodology, supporting evidence-based options appraisal for the commissioning and procurement of services;

- 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 significant induction and training programme for new and returning councillors is delivered after each local election, including the May 2017 election;

- 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 internal audit service followed their Audit Plan during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report; and

- The Council's external auditor is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the annual accounts audit and wider scope requirements set out within the Code of Audit Practice.

The 2019/20 Local Scrutiny Plan which sets out any scrutiny risks identified by the local area network (LAN), addressed areas requiring oversight and monitoring:

- fieldwork for improving outcomes for young people through school education (Audit Scotland): This audit looks at school education to assess whether outcomes are improving for young people, whether the Scottish Government, Councils and their partners collectively have a clear and coherent approach to improving these outcomes, how public money is being used for this and how effectively performance is being evaluated and actions taken to improve these outcomes. The report which was due to be published by spring 2020 is not yet available;

- supported and validated self evaluation of community justice partnerships: Following the Care Inspectorate's engagement with the Shetland Community Justice Partnership to support and validate the Partnership's self-evaluation, the Care Inspectorate concluded that the partnership's approach to self-evaluation was considered and mature. The methodical and reflective approach has enabled the partnership to appropriately identify strengths and areas where improvement is required. The parternship is clearly committed to developing an improvement plan which incorporates learning from the self-evaluation. Further information is available in the report which can be accessed at the following website; and

- Scottish Housing Regulator (SHR), engagement on services for people who are homeless and service quality: a review of the 2017/18 service quality performance of social landlord services by the SHR identified the Council as being in the bottom quartile for several areas including tenant satisfaction of the quality of their home, rent arrears and non-emergency repairs. Ongoing dialogue continues between the Council and SHR to fully understand the performance. More information can be found in the 2019/20 engagement plan which can be accessed at the following website, and also on the SHR website. The Council's 2019/20 Landlord report has not yet been published.

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 Audit Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

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 the Internal Audit Annual Report as specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
There is no formal framework to specifically mitigate the risks associated with EU Funding compliance.	Corporate Management Team	Failure to comply with EU Funding rules for live and completed projects may result in financial clawback.	Whilst there are the expected project level systems and controls in place, there is an absence of a specific comprehensive control framework for EU Funding compliance.	Internal audit is discussing appropriate remedial actions with management. This will be formalised into an action plan and completion monitored by Internal Audit.	31 March 2021

Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues reported in the 2018/19 Annual Governance Statement.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Health & Safety risk assessments either not being in place or out of date.	Corporate Management Team	New process for Health & Safety risk assessments implemented.	None.
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	Corporate Management Team	A programme of premise visits has been developed.	Remaining premises visits to be completed in accordance with the new programme.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Operational grants processing and monitoring issues.	Corporate Management Team	Grants and Third Parties Payments Framework put in place.	None.
Business Continuity – lack of an up to date corporate policy on business continuity. Some services identified which have not yet developed a Business Continuity Plan (BCP), and other services which have a BCP in place but it is out of date.	Executive Manager – Governance & Law	Business Continuity Policy has been finalised and approved. Options identified for BCP's however not yet taken forward due to COVID-19 pandemic.	Lessons learned from COVID-19 will be used to inform the BCP format going forward.
Fraud Controls – Reconciliations not carried out between key financial systems. System administrators have access to undertake entire accounts payable process, and there is no monitoring of audit logs as a compensating control.	Executive Manager – Finance	The scope of works to undertake the reconciliations has been agreed.	Work due to be completed during Q2 2020/21.

Internal Audit Opinion

Internal Audit prepared an annual plan for 2019/20. There are elements of the planned fieldwork that remain ongoing primarily due to resource issues within the Shetland audit team, and also delays in obtaining some information from management. Some of the delays are related to the impact of COVID-19 but Internal Audit has also experienced inadequate interaction from certain areas of the Council, which has adversely impacted the completion of some planned work. Key areas of work that remain ongoing from the 2019/20 audit plan include risk management, treasury management, and procurement.

Where the audit opinion arising from an audit states that the control environment has been assessed as unsatisfactory the concerns highlighted are reported in the Annual Governance Statement. Based on the 2019/20 fieldwork completed to date, there is one area that Internal Audit has concluded falls into that category: arrangements for EU Funding compliance, as outlined above.

The impact of COVID-19 in March 2020 was a significant event, impacting normal business operations and risk assessments. As a result of the changes to the working arrangements arising from the pandemic response, in March 2020 many of the expected systems and controls will have been subject to change. The Internal Audit opinion expressed in this report therefore applies only to the period before the emergency service delivery arrangements were put in place. The 2020/21 Internal Audit plan is being reviewed in order to incorporate assurance work relating to COVID-19.

Based on the audit work undertaken, the assurances provided by senior management, and excluding the significant issues noted above, it is the Chief Internal Auditor's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20 in the council for the period before the change to service delivery models in March 2020.

External Audit – Wider Scope actions

As part of the 2018/19 audit process, the Audit Committee received an interim external audit report in June 2019, which focused on areas other than the financial statements and summarised the auditor's findings in the areas of:
- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

The interim audit report contained several recommendations for improvement across all four areas and the Council has been working to address the recommendations throughout 2019/20. The audit action plan summarises each recommendation and the actions the Council will take in response to the auditor's recommendations.

The interim 2018/19 audit report, and associated audit action plan, can be found http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24177.

As part of the current year's audit process, external auditors will consider the progress the Council has made during the 2019/20 financial year. However, auditors will not be able to present an interim report before August 2020 due to the COVID-19 pandemic. Instead, auditors will present an update on progress against the audit action plan as part of their final audit report, which is expected to be presented to Audit Committee in September 2020.

The Council along with the other 4 duty holders under the Community Empowerment Act 2015, Section 10 are continuing to address as a high priority, the omission of a specific Locality Plan for Shetland with a focus on Shetland's Islands with Small Populations. This will add to the locality planning work already undertaken to reduce inequalities and improve outcomes. The work, which was due for completion in June 2020, has been delayed to September/October 2020 as the consultation events with island communities were halted due to COVID-19.

The Council is committed to take steps to address any new or outstanding matters to further enhance our governance arrangements. We will continue to monitor the effectiveness of the governance arrangements and will take on board any new recommendations into account as part of our next annual review.

COVID-19

COVID-19 is a new strain of coronavirus that has quickly spread across the globe, prompting the World Health Organisation, on 11 March 2020, to declare the outbreak a pandemic and a public health emergency of international concern. The COVID-19 pandemic has significantly impacted the Council and the residents of Shetland, resulting in changes to the way services are

delivered across the Isles.

The Corporate Management Team, chaired by the Chief Executive, initially met daily to facilitate and monitor the Council's strategic response, with a particular focus on:

- Workforce planning and the safety and well being of Council employees and contractors;
- Maintaining delivery of business-critical services;
- Implementing the Caring for People strategy
- Delivering national financial support schemes on behalf of the Scottish Government; and
- Implementing business continuity plans and improving digital resilience, enabling extensive remote working arrangements.

The majority of Council staff began working flexibly and remotely from late March, as restrictions were imposed by the UK Government and Scottish Government.

From late May 2020, the Corporate Management Team have met twice a week, as the Council's approach began to focus on planning and implementing renewal and recovery efforts.

The Corporate Management Team is supported by a Tactical Team, which is chaired by the Executive Manager - Governance and Law. Initially the tactical team also met daily, before scaling back meetings to coincide with the same frequency of meetings as the Corporate Management Team.

In addition, the Chief Executive participates as a member of the Shetland Emergency Planning Forum and attends the Highlands and Islands Resilience Partnership, which was activated in response to the pandemic. Participation in both multi-agency fora helps to ensure a holistic, Shetland-wide approach is taken to the response and, in time, the recovery to the pandemic.

On 22 April, recommendations were made to a virtual meeting of the Full Council including reports that would ordinarily be presented to a number of the Council's committees. This adjustment to the Council's decision-making structure was introduced as a temporary measure to help staff adhere to the UK and Scottish Government guidelines on social and physical distancing. The recommendations, which were approved by Members, included:

- the cancellation of all Council and committee meetings;
- adoption of a common reporting format to summarise the decisions taken, under existing emergency powers that grant delegated authority to officers; and
- measures to allow remote attendance at Council and Community Council meetings.

The temporary arrangements are kept under active review and may be extended or revoked as circumstances permit.

Conclusion

Overall, it us our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and internal controls that operate across Shetland Islands Council throughout 2019/20, including the last 2 weeks of March 2020 as restrictions came into force. We consider that the arrangements and internal control environment allow us to identify any significant risks which may impact on the achievement of our principal objectives, and to take action, or actions, to avoid or mitigate the impact of any such risks.

....

Steven Coutts
Leader of the Council
15 July 2020

....

Maggie Sandison
Chief Executive
15 July 2020

Agenda Item
2

Shetland Islands Council

Meeting:	Audit Committee	15 July 2020
Report Title:	Internal Audit COVID-19 Response	
Reference Number:	CRP-16-20-F	
Author / Job Title:	Duncan Black, Chief Internal Auditor	

1.0 Decisions / Action required:

That the Audit Committee:

1.1 NOTES the update provided.

2.0 Introduction:

2.1 In accordance with best practice and the Public Sector Internal Audit Standards, the Internal Audit plan is subject to ongoing review to ensure it remains up to date and reflective of changes in the business. This is even more important given the significant and fast-changing impact of the COVID-19 Pandemic on the Council.

2.2 This paper briefly summarises the response of the Internal Audit function, and the impact on the Internal Audit plan, fieldwork, reporting and future plans.

3.0 Internal Audit Response:

3.1 From mid-March 2020, Council systems and controls began to be altered and amended to reflect the impact of the COVID-19 pandemic. Following the lockdown of non-essential activity by central government, the focus of Council activity turned to business critical services.

3.2 The Internal Audit team have continued to work from home, and have focused on the completion of the 2019/20 Audit Plan. This has meant that only a limited amount of fieldwork has been deferred into 2020/21, primarily due to unavailability of Council officers and audit information due to lockdown working arrangements in other service areas. As a result, we have been able to complete sufficient fieldwork in order to complete our 2019/20 annual report and opinion. Any fieldwork that has had to be deferred has been noted for picking up during 2020/21.

3.3 Similarly, some audit reports have not been fully agreed with management and have therefore not yet been presented to the Audit Committee. These will be presented at the earliest opportunity.

3.4	The impact of COVID-19 on the system of governance and internal control is being assessed by Internal Audit. All Services have been asked to inform Internal Audit of any changes to key internal systems and controls. We are logging these and have commenced a review of our risk assessments. Whilst it is important to keep a focus on the governance, systems and controls that underpin the Council's strategic objectives and priorities, some additional assurance audits will be undertaken during 2020/21.
3.5	Internal Audit is keeping in close contact with professional institutes (in particular the Chartered Institute of Finance and Accountancy, and the Institute of Internal Auditors) to ensure that our COVID-19 response is in keeping with best practice from other organisations and sectors. We are also keeping in regular contact with peer local authorities via the Scottish Local Authorities Chief Internal Auditors Group. Our approach to date is in keeping with other local authorities.

4.0   Exempt and/or confidential information:

4.1   None.

5.0   Implications:

5.1 Service Users, Patients and Communities:	The Council must ensure Best Value in the delivery of services. Internal Audit activities provide reassurance to the Council in this regard.
5.2 Human Resources and Organisational Development:	None directly arising from this report.
5.3 Equality, Diversity and Human Rights:	None directly arising from this report.
5.4 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.
5.5 Finance:	The work of Internal Audit contributes towards effective financial stewardship within Shetland Islands Council.
5.6 Assets and Property:	None directly arising from this report.

5.7 **ICT and new technologies:**	None directly arising from this report.
5.8 **Environmental:**	None directly arising from this report.
5.9 **Risk Management:**	The Internal Audit Plan 2020/21 will take a risk based approach to the planned audit activities in 2020/21.
5.10 **Policy and Delegated Authority:**	The Audit Committee remit includes consideration of audit matters and to oversee and review actions taken on audit activity. "
5.11 **Previously considered by:**	None

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3 July 2020

Shetland Islands Council

Meeting(s):	Audit Committee	15 July 2020
Report Title:	**Internal Audit Summary Report**	
Reference Number:	**CRP-17-20-F**	
Author / Job Title:	**Duncan Black** **Chief Internal Auditor**	

1.0	**Decisions / Action required:**

1.1 Audit Committee is asked to
   1. NOTE the content of the report;
   2. NOTE that the report format includes appendices to the full audit reports for further information;
   3. COMMENT on the outcome on the findings of the audit work completed; and
   4. ADVISE the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

2.0	**High Level Summary:**

2.1 The attached Internal Audit Update Summary provides Members of the Audit Committee with an overview of the work undertaken by Internal Audit during the period from 1 November 2019 and 3 July 2020 as part of the agreed 2019/20 Internal Audit Plan.

2.2 The report summarises the findings of each of the audits completed during that time, highlights any recommendations made and the audit opinion in light of the findings of the audit activity.

2.3 The detailed audit reports are available separately together with agreed plans for addressing the recommendations.

3.0	**Corporate Priorities and Joint Working:**

3.1 The Council's Corporate Plan, "Our Plan 2016-2020", states that:
"Our performance as an organisation will be managed effectively, with high standards being applied to the performance of staff and services. Poor performance will be dealt with and good service performance will be highlighted and shared".

3.2 Internal audit reports provide an independent assessment of the effectiveness and integrity of the Council's systems; providing assurance to the Council in this regard and with regard to Best Value.

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4.0	Key Issues:

4.1 Internal Audit is an independent appraisal function within the Council. Its work is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors, and takes account of the work of the Council's external auditor.

4.2 During the period between 1 November 2019 and 3 July 2020, four reviews have been completed and summary information for each review is provided below. The full reports are provided as appendices to this report.

4.3 The delay in completing all the audit work planned for financial year 2019/20 has been caused in part by a vacancy in the small team based in Shetland and this role is currently under review. More recently, the Internal Audit team have been working from home due to the restrictions arising from the Covid 19 pandemic. This is the subject of a separate report on today's agenda.

4.4 **Additional Payments**

	High	Medium	Low
Number of recommendations	-	2	2

This audit was undertaken to gain assurance that arrangements in place for payments to employees in addition to their core pay are adequate and robust to ensure that only legitimate payments are made.

The scope of the audit included:

- The availability of documented procedures to staff for additional payments;
- The arrangements for ensuring that all additional payments are accurate and accompanied by relevant evidence;
- The arrangements for managers authorising additional payment claims, and
- The processes for recovering any overpayments.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The medium priority recommendations relate to:

- A review of the Council policy on the Use of Market Forces Supplement, to ensure it reflects update guidance and advice;
- Ensuring and end date is recorded for the payment of honorariums.

4.5 **Cyber Security**

	High	Medium	Low
Number of recommendations	1	3	-

This audit was undertaken to gain assurance that robust controls have been put in place to safeguard the Council against cyber-crime attempts.

The scope of the audit included:

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- Information security policies, procedures and guidelines;
- User training and awareness;
- Technical controls to detect and prevent malicious activity, and
- Incident handling.

Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The high and medium priority recommendations relate to:

- Guidance outlining cyber threats and steps to be taken if suspicious activity noted;
- Mandatory information security training;
- Testing of the Council's Cyber Security Incident Response Plan, and
- The removal of internet access from system administrator accounts.

4.6   **Ledger Interfaces**

	High	Medium	Low
Number of recommendations	1	1	-

This audit was undertaken to gain assurance that controls surrounding ledger interfaces have been implemented and are operating effectively.

The scope of the audit included:

- System and process documentation;
- Interface reconciliations, and
- Segregation of duties.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The high and medium priority recommendations relate to:

- System and process documentation detailing the operation of the interface, and
- Reconciliation of the interface.

4.7   **Pension Fund Governance Arrangements**

	High	Medium	Low
Number of recommendations	-	2	-

This audit was undertaken to review the governance arrangements for the Shetland Islands Council Pension Fund.

The scope of the audit included selecting a sample of responses from the completed 2019/20 Annual Governance Questionnaire specific to the Pension Fund and seeking confirmatory evidence across the following areas:

- Business Planning;
- Leadership and Governance;

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- Performance Reporting;
- Audit and Inspection;
- Human Resources;
- Risk Management;
- Business Continuity;
- Information Technology;
- Finance;
- Partnership Working;
- Legal, and
- Maintenance of the Fund.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The two medium priority recommendations relate to:

- Updating the relevant business continuity plan, and
- Reporting of the Pension Find Risk Register.

4.8 The full reports for the above reviews are appended to this report

- Additional Payments – Appendix 1
- Cyber Security – Appendix 2
- Ledger Interfaces – Appendix 3
- Pension Fund Governance Arrangements – Appendix 4

5.0	Exempt and/or confidential information:

5.1 None.

6.0	Implications:

6.1 Service Users, Patients and Communities:	The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council. This provides assurance to the Council with regard to the efficiency, effectiveness and economy of the Council's services and Best Value.
6.2 Human Resources and Organisational Development:	Recommendations regarding the systems and processes for making additional payments to staff are included in this report at Appendix 1.
6.3 Equality, Diversity and Human Rights:	None arising directly 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.

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6.5 **Finance:**	Appendices 1, 3 and 4 include recommendations with regard to the systems and processes in place for making additional payments to staff, ledger interfaces and pension governance arrangements.
6.6 **Assets and Property:**	None arising directly from this report.
6.7 **ICT and new technologies:**	Recommendations with regard to the systems and procedures in place with regard to cyber security are included in Appendix 2 of this report.
6.8 **Environmental:**	None arising directly from this report.
6.9 **Risk Management:**	Internal Audit facilitates the reduction of risks identified during the audit process. The management responses to the recommendations made in the most recent audit reports can be seen in the appendices to this report. Progress made by management to address the issues identified will be monitored and reported back to Audit Committee in due course.
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

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Appendices

Appendix 1 - Additional Payments
Appendix 2 - Cyber Security
Appendix 3 - Ledger Interfaces
Appendix 4 - Pension Fund Governance Arrangements

Background Documents

None

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Internal Audit Report

Additional Payments – 2019/20

<u>Shetland Islands Council</u>

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2019/20 Additional Payments

Shetland Islands Council

1. Introduction

1.1 As part of the agreed Internal Audit plan, we have undertaken a review of the arrangements in place for additional salary payments throughout the Council.

1.2 These are payments that employees could be awarded in addition to their core pay. These can be based on additional responsibilities, working context and demand and non-standard working patterns.

1.3 The purpose of the audit was to gain assurance that the arrangements in place for these payments are adequate and robust to ensure that only legitimate payments are made.

1.4 The scope of the audit covered the following:

- Availability of documented procedures to staff for additional payments;
- Arrangements for ensuring that all additional payments are accurate and accompanied by relevant evidence;
- Arrangements for managers authorising additional payment claims, and
- The processes for recovering any overpayments.

1.5 Internal Audit were provided with a list of all salary payments in addition to core pay; from this we selected Honorariums, Market Forces Supplements (MFS), Harbour Fees, Shift and Travel Allowance and Remote Schools Allowance for review.

1.6 A report was produced from CHRIS (SICs HR/Payroll System) on 21 January 2020 and from this a total of 88 employees were paid an additional allowance in the categories selected. From this, a sample of 25 (28.4%) payments were selected for review.

The total additional allowances being paid in the categories selected were as follows:

- Shift and Travel Allowance – 37
- Honorariums – 32
- Market Forces Supplements – 7
- Harbour Fees – 7
- Remote Schools Allowance – 5

All off these allowances, excluding Honorariums, are currently applied to only set groups of employees within the SIC. These groups are Harbour & Port Operations and Teachers.

2. Audit Opinion

2.1 Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and four recommendations which management should address.

2019/20 Additional Payments

Shetland Islands Council

3.   Main Findings

3.1   We found that some key controls are in place and generally operating effectively, however a number of areas were identified where improvements are required / should be made.

3.2   The policy for the Use of Market Forces Supplements became operational in July 2009, however this has not been subject to review. In addition, Market Forces Supplements approved by Committee for two categories of staff have an approved review period of three and five years. This differs from the two year period stated in the policy.

3.3   One overpayment was identified during the course of the audit. One employee had their salary preserved when they were redeployed in 2011 until the salary of the new post reached the current salary level through wage awards. However, in April 2017, the salary preservation stopped with an honorarium started for the value between the two salaries. From discussions with HR, Payroll and Infrastructure, it is unclear why this change was made. The additional payment should have ended when the wage award was applied in April 2018, however, this continued until it was identified by Internal Audit in January 2020.

3.4   Further investigation identified that this employee had been incorrectly set up on the wrong grade on the sub system Servitor which has resulted in a net underpayment of approximately £160. The controls surrounding payroll data on Servitor will be reviewed in more detail during an application review of the system carried out during 2020/21.

3.5   A contributing factor to this overpayment was that there was no end date recorded on CHRIS for the allowance. It is worth noting that no other honorarium is recorded without an end date which reduces the likelihood of similar overpayments occurring.

3.6   The Temporary Higher Duties policy states that temporary higher duties arrangements should not normally last longer than 6 months. 50% of the honorariums being paid as at January 2020 had been ongoing for a period of at least 12 months. A control is in place that all honorariums are subject to review and approval by HR prior to any extensions. This was evidenced for all honorariums in the sample. Consideration should be given to the appropriateness of the 6 month limit during any future policy reviews.

3.7   Each month, pay adjustments are checked to source documentation by the Payroll team to ensure accuracy. However, it is not possible to identify who has undertaken the check as the team are not required to sign the report. To ensure accountability, it is

2019/20 Additional Payments

recommended that the team member undertaking the verification check signs the payroll report.

3.8   An action plan is provided at section four outlining our observations, risks and recommendations. We have made four recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	2
Low	Lower level controls absent, not being operated as designed or could be improved.	2

3.9   The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.10 We would like to thank officers involved in this audit for their cooperation and assistance.

Shetland Islands Council

2019/20 Additional Payments

4. Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Additional payment procedures are in place and available to all relevant staff. Payments are made in line with documented procedures.				
1	The SIC Policy for the Use of Market Forces Supplement states that it became operation in July 2009 with a review due by July 2012. The Human Resources Senior Advisor advised that preliminary work is now ongoing with regard to the review of the Market Forces Policy and that earlier reviews had not been carried out due to resourcing. The policy for the Use of Market Forces Supplements (MFS) states that: *Market Forces Supplements are a temporary measure and will be reviewed every two years from date of commencement with a view to withdraw, increase or decrease the supplement in line with changes to the market.* The reports presented for the approval of MFS for two categories of staff requested review periods of five and three years; which is out with the current policy. The MFS applied to Marine Pilot posts should have been reviewed in 2015, however a report was not presented until 2017.	A review should be undertaken to update the policy to reflect new guidance/advice that further support the provision of the MFS policy. The policy should then be subject to regular review.	**Medium**	**Response:** I agree that the Policy will be reviewed. It should be noted that the reports referred were approved by the appropriate Council Committee and minute references provided as part of the audit. **Officer Responsible for Implementation:** Executive Manager – Human Resources **Timescale for Implementation:** Due to the current uncertainties, I expect work will progress during 2021.

2019/20 Additional Payments

Shetland Islands Council

	The HR Senior Advisor informed Internal Audit that it would be normal practice for HR to be involved in discussions regarding failure to recruit and market forces analysis and considerations. In addition, HR would have an opportunity to comment on reports as part of the agenda management process.			
Key Control: All additional payments are accurate, accompanied by evidence and approved by an appropriate manager.				
2	One employee was redeployed in 2011 with his salary preserved until the new post matched the existing rate. The salary preservation stopped in April 2017 whereby an honorarium was applied bringing the current salary in-line with the 2011 rate. No approval or documentation could be located or provided by the service for the change between salary preservation and the honorarium. The wage award applied in April 2018 brought the current salary above the amount paid in 2011 but the honorarium payments have continued to date. This has resulted in an honorarium overpayment of £334.

When investigating the overpayment, the Service identified that the employee had been incorrectly set up on the sub system Servitor which has resulted in a net underpayment of approximately £160. The controls surrounding payroll details on Servitor will be reviewed in more detail during an application review of the system carried out during 2020/21. | Staff should be reminded that all honorariums on CHRIS should have an end date recorded to minimise the risk of future overpayments. | Medium | **Response:**

The Team Leader – Expenditure will remind Payroll Staff that all staff honorariums require an end date to be recorded on CHRIS.

Officer Responsible for Implementation:

Team Leader - Expenditure

Timescale for Implementation:

With immediate effect |

2019/20 Additional Payments

Shetland Islands Council

	One of the contributing factors regarding the overpayment was that the honorarium was recorded on the payroll system without an end date. All other honorariums on the system have end dates recorded which reduces the risk of further overpayments.			
Key Control: Additional payments made are in-line with documented procedures.				
3	The Temporary Higher Duties Policy states that: *Temporary higher duties arrangements should not normally extend beyond 6 months. If there is a need to continue a temporary higher duties payment beyond 6 months, the circumstances and remuneration must be reviewed by HR and discussed and agreed with the relevant Executive Manager or Director.* From the sample of 10 honorarium payments selected for review, the duration of the honorariums range between 11 and 91 months. The Senior Human Resources Advisor confirmed that, for the majority of honorariums in the sample, these are for undertaking additional duties rather than carrying out the full range of duties in an Acting Up arrangement. These employees are expected to undertake additional duties as well as their own contracted role and it would therefore not be appropriate to issue temporary contracts.	Consideration should be given to the appropriateness of the standard 6 month threshold for temporary higher duties.	**Low**	**Response:** I agree that the Policy should be reviewed, proposing that the duration of an arrangement is extended for up to 12 months. In addition, all honorariums which have been received for longer than 12 months will be reviewed every 6 months thereafter to ensure that they continue to be appropriate. **Officer Responsible for Implementation:** Executive Manager – Human Resources **Timescale for Implementation:**

2019/20 Additional Payments

Shetland Islands Council

	On further review it was identified that 50% of the honorariums being paid as at January 2020 had been ongoing for a period of at least 12 months.			Due to the current uncertainties, I expect work will progress during 2021.
Key Control: Robust monitoring processes in relation to additional payments are in place to identify overpayments, and appropriate steps are taken to recover overpayments.				
4	As part of the monthly payroll process, an NPL report is produced from CHRIS (NPL is the name of the CHRIS screen where the pay adjustments are recorded). The report details all adjustments that have been made during the pay period e.g. overpayment recoveries, new honorariums, occupational maternity pay etc. This report is printed off and split between the payroll team to trace the payment back to source data to ensure the payment is accurate. The Payroll Officer/Assistant checks off the amounts on the sheets to confirm they have been verified, however they are not signed or initialled to confirm who undertook the check.	The Payroll Officer / Assistant undertaking the verification checks should sign the bottom of the NPL sheet.	**Low**	**Response:** These checks are now recorded electronically. The NPL Report is now saved as a spreadsheet and spit between the Payroll Officers. Once each officer has checked their own payroll adjustments, they rename the report with their initials to show it's been checked. The Team Leader – Expenditure will remind Payroll Staff of the above procedure when undertaking the pay adjustment checks to evidence that the checks have been performed. **Officer Responsible for Implementation:** Team Leader - Expenditure **Timescale for Implementation:** With immediate effect

2019/20 Additional Payments

Shetland Islands Council

Internal Audit Report

Cyber Security – 2019/20

Shetland Islands Council

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2019/20 Cyber Security

Shetland Islands Council

1.   Introduction

1.1   As part of the agreed Internal Audit plan, we have undertaken a review of the arrangements in place for cyber security throughout the Council.

1.2   Cyber security is the application of technologies, processes and controls to protect systems, networks, programs, devices and data from cyber-attacks. It aims to reduce the risk of cyber-attacks, and protect against the unauthorised exploitation of systems, networks and technologies.

1.3   The purpose of the audit was to gain assurance that robust controls have been put in place to safeguard the Council against cyber-crime attempts.

1.4   The scope of the audit covered the following:

- Information security policies, procedures and guidelines
- User training and awareness
- Technical controls to detect and prevent malicious activity
- Incident handling

2.   Audit Opinion

2.1   Based on the work carried out a reasonable level of assurance can be placed upon the control

environment. The audit has identified scope for improvement in the existing arrangements and four recommendations which management should address.

3.   Main Findings

3.1   We found that some key controls are in place and generally operating effectively including automatic updates being activated on email scanners, web filtering being enabled and regular Security Review Team meetings being minuted, however a number of areas were identified where improvements are required/should be made.

3.2   Currently no procedures exist for end users which outline the threats posed and steps to be taken if malicious activity is suspected.

3.3   There is currently no information security training which is mandatory for employees. A new information security course is available as part of a new suite of courses on iLearn however this is a generic course and at the time of audit testing, only three employees had completed the training.

3.4   The ICT Service have developed a Cyber Security Incident Response Plan however, this has not been subject to full testing. As a result, the organisation may be less resilient than expected to cyber-attacks.

2019/20 Cyber Security

3.5 It was noted that administrators utilise two accounts to distinguish between their business as usual activities (e.g. checking emails, internet browsing etc.) and administrator activities, such as installing software. The use of dual accounts is acknowledged as good practice, however, we found that all administrator accounts also have access to the internet, which could be exploited if accounts became compromised.

3.6 An action plan is provided at section four outlining our observations, risks and recommendations. We have made four recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	1
Medium	Less critically important controls absent, not being operated as designed or could be improved.	3
Low	Lower level controls absent, not being operated as designed or could be improved.	0

3.7 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.8 We would like to thank officers involved in this audit for their cooperation and assistance.

Shetland Islands Council

2019/20 Cyber Security

4.   Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Information security related policies, procedures and guidelines have been documented.				
1	There is currently no policy/procedure in place that applies to end users, to clearly outline the cyber related threats they may encounter and the action to be taken in response. The only document that is available to end users is the ICT Security Policy. This document outlines the expectations and requirements of staff on access control, user credentials, internet usage, email usage, computer storage device policy, software policy, mobile and data device policy and breaches of the ICT Security Policy. These areas cover how an employee should conduct themselves and what is classed as acceptable usage but does not provide details on the cyber related threats to be vigilant to. There is a risk that end users will be unaware of the threats posed and how to act if malicious activity is suspected resulting in harmful content permeating further than necessary.	A document should be developed and communicated to end users which clearly outlines the threats posed and steps to be taken if suspicious activity is suspected. Alternatively, the ICT Security Policy could be updated to include examples of the most prevalent user related threats that they should be vigilant to.	**Medium**	**Response:** The ICT Security Policy will be reviewed in line with the recommendations. **Officer Responsible for Implementation:** Executive Manager - ICT **Timescale for Implementation:** ICT Security Policy changes to be drafted for ICT Management Board in September 2020, will be finalised and communicated shortly after this.

2019/20 Cyber Security

Shetland Islands Council

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Users receive regular information security training to raise awareness of threats.				
2	Discussions with officers has identified that there is no mandatory information security training for employees. We were informed that there was a plan to develop comprehensive training, however due to multiple elections and other resource issues, this was not progressed. There is a generic information security training course available on iLearn. However, completion of this is not mandatory and at the time of testing, only three members of staff had undertaken the training. There is therefore an increased risk that staff are not fully aware of the Council's information security expectations or their roles and responsibilities as officers, which could lead to data loss and financial penalties.	An information security training course should be developed which meets the Council's needs and expectations. Once available, the completion of the course should be mandatory with non-compliance reported to CMT and/or the Information Security Governance Board.	**High**	**Response:** The Information Management & Improvement work stream of the Business Transformation Programme will be reviewed and will include specific actions to address the recommendations. **Officer Responsible for Implementation:** Director - Corporate **Timescale for Implementation:** The existing iLearn course will be promoted in the short term together with reminders regarding the ICT Security Policy, which will be updated as described above. Full work programme on information governance and security to be developed by end 2020.

Shetland Islands Council

2019/20 Cyber Security

Key Control: An agreed process has been implemented for staff to follow in the event of an information security incident.			
3	A Cyber Security Incident Response Plan has been created which was last reviewed and updated in September 2019. However, the plan has never been tested. The National Cyber Security Centre has developed an online tool, Exercise in a box, which helps organisations find out how resilient they are to cyber-attacks and practice their response in a safe environment. This tool could be utilise to facilitate testing of the Plan. Without adequate testing there is an increased risk that the plan may be ineffective in its operation resulting in the organisation being less resilient as expected to cyber-attacks.	The Plan should be tested to ensure it operates effectively as anticipated. The NCSC's 'Exercise in the Box' could be used as a tool to facilitate this. A process should be put in place to ensure that the Plan is tested on periodic basis thereafter with amendments made based on the lessons learned.	**Medium**	**Response:** ICT to initiate an exercise in a box cyber response plan regular testing exercise **Officer Responsible for Implementation:** Executive Manager – ICT **Timescale for Implementation:** First one to be completed by March 2021, then every 12-18 months.
Key Control: Technical controls have been put in place to prevent and detect malicious activity.			
4	It is noted from testing that ICT staff have two accounts to distinguish between business as usual and administrator activities. The use of dual accounts is acknowledged as good practice, however, we found that all administrator accounts also have access to the internet. When queried with the Team Leader, the response received was that this requirement has never been imposed on the team in relation to the Code of Connection or PSN which could be down to the way they are utilised. The Team Leader informed Audit that the Admin accounts are used as proxy accounts to 'run	The lockdown of privileged accounts should be enhanced by removing Internet access in order to further mitigate the risk of cyber-attacks.	**Medium**	**Response:** ICT will explore the options available, alongside this year's IT Health Check recommendations and implement an appropriate solution that aligns with the NCSC's guidance in relation to the management of privileged accounts. **Officer Responsible for Implementation:**

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as' tools and only log in as a last resort to use the DC's.

The NCSC have published a guide on 10 steps to cyber security. Within this guide it is recommended that organisations strictly control the granting of highly privileged system rights. The guide states that "highly privileged administrative accounts should not be used for high risk or day to day user actives, for example web browsing and email".

Internet access on administrator accounts could be exploited if accounts become compromise. There's an increased risk of severe attacks if attackers gain access to highly privileged accounts that give them greater access. | | | Executive Manager – ICT

Timescale for Implementation:

By January 2021 |

Internal Audit Report

Ledger Interfaces – 2019/20

Shetland Islands Council

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2019/20 Ledger Interfaces

1. Introduction

1.1 As part of the agreed Internal Audit plan, we have undertaken a review of the arrangements in place for ledger interfaces.

1.2 The purpose of the audit was to gain assurance that controls surrounding ledger interfaces have been implemented and are operating effectively.

1.3 The scope of the audit covered the following:

- System and process documentation
- Interface reconciliations
- Segregation of duties

1.4 In 2018/19 an audit was carried out on fraud controls following a significant fraud at Dundee City Council. As a result of this audit, two recommendations were raised in relation to ledger interface documentation and reconciliations between Integra and one of the sub-systems, Capita Open Housing.

2. Audit Opinion

2.1 Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and two recommendations which management should address.

3. Main Findings

3.1 We found that some key controls are in place and generally operating effectively including segregation of duties for all interfaces sampled and reconciliations to control totals being undertaken to ensure completeness of the interface. However we have identified that the two recommendations raised in relation to the fraud controls audit have not been fully implemented.

3.2 When employed by Finance, the System Administration and Development Officer started to develop system and process documentation which articulates the flow of transactions through the ledger and other systems within Finance. Diagrams have been finalised detailing the interfaces in and out of the various components of the ledger, colour coded by their frequency. However, the accompanying document which details the purpose of the interface and how it works is incomplete.

3.3 A periodic interface is received from Housing to be imported into the Purchase Ledger for housing repairs. However, there are no reconciliations carried out between the invoices recorded on the Purchase Ledger and those recorded on Capita Open Housing to ensure completeness of data. As the interface file is sent in text format, there is an opportunity to amend data prior to upload to the Ledger. It's acknowledged that the employees at Housing do not have access to amend or

2019/20 Ledger Interfaces

create supplier details so any additional entries or amendments to the text file would have to be for known suppliers within the Purchase Ledger.

3.4   An action plan is provided at section four outlining our observations, risks and recommendations. We have made two recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	1
Medium	Less critically important controls absent, not being operated as designed or could be improved.	1
Low	Lower level controls absent, not being operated as designed or could be improved.	0

3.5   The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.6   We would like to thank officers involved in this audit for their cooperation and assistance.

Shetland Islands Council

2019/20 Ledger Interfaces

4. Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: System and process documentation is in place which articulates the flow of transactions and how interfaces work.				
1	Following a fraud controls audit carried out during 2018/19, the System Administration and Development Officer (SADO) was tasked with developing system and process documentation for Financial systems which included the flow of transactions and how interfaces work. Prior to being redeployed, the SADO created a map of interfaces and transfers between the different components of the ledger and payroll system. In addition to this, a spreadsheet was created with provides more details about the interfaces. This spreadsheet records the key contacts for source and destination, date of last review, source and destination system details, description of the interface, staff groups responsible, systems and applications used to process and import the interface and server and folder details. However, the SADO was unable to get this fully populated prior to redeployment. A lack of detailed documentation could place the Council at an increased operational and financial risk should an unexpected event befall any of its IT systems. Without being able to demonstrate how	The documentation explaining interface details should be completed by staff with the appropriate technical knowledge. Finance should ensure this documentation is kept up to date.	**Medium**	**Response:** Finance will commission the completion of the system interface documentation with from technical specialists in ICT. We will undertake regular checks to make sure system interface documentation is up to date to ensure any major changes to systems through upgrades, releases, fixes etc. are captured. **Officer Responsible for Implementation:** Executive Manager - Finance **Timescale for Implementation:** 31st December 2020

Shetland Islands Council

	the financial systems interface, any investigation could be time consuming and labour intensive			
Key Control: Reconciliations are carried out for all interfaces to ensure accuracy and completeness of data.				
2	The Housing team record supplier invoice details on Capita for housing repairs. This interface is received periodically from the Housing Assistants in the format of a text file. Once uploaded to Integra, the Accounts Payable Officer will check control totals to ensure all lines and values have been uploaded accurately. A PRL Import Utility report is produced which details the valid invoices that have been updated. This provides a line count and batch total for the upload. As the interface is received in text format, there is a risk that the Housing Assistants could add additional lines to the file prior to sending to the Accounts Payable team. There is currently no reconciliations undertaken between the invoices recorded on Capita and those uploaded to the Purchase Ledger. It's worth noting that the Housing Assistants do not have access to create or amend supplier details. Any additional lines added to the text file would have to be to existing suppliers on the system. This area was subject to an audit recommendation as a result of a Fraud Controls audit carried out in 2018/19 following the Dundee City Council fraud	The reconciliation should be implemented to ensure completeness and accuracy of data transferred from Capita.	**High**	**Response:** This has not progressed due to workload with the college merger and a complex budget setting exercise before Christmas. Now things have settled down slightly, I'm confident this will be implemented by the end of July. **Officer Responsible for Implementation:** Executive Manager - Finance **Timescale for Implementation:** 31st July 2020

2019/20 Ledger Interfaces

case. This was revisited as part of the 2019/20 Annual Governance Statement and it transpires that this has not yet been implemented. The Executive Manager Finance has assured Internal Audit that this reconciliation will be implemented by the end of June 2020.			

Internal Audit Report

Shetland Islands Council Pension Fund – Governance Arrangements – 2019/2020

<u>Table of contents</u>

Shetland Islands Council Pension Fund – Governance Arrangements

1. Introduction

1.1 As part of the agreed Internal Audit plan, we have carried out a review of governance arrangements for the Shetland Islands Council Pension Fund (the Pension Fund).

1.2 The purpose of good governance within an entity is to ensure that the level of direction and management of the affairs is satisfactory, to align corporate behaviour with the expectations of the public and to be accountable to stakeholders in the public interest. The process of governance involves the clear identification of responsibilities, accountabilities and adequate systems of supervision, control and communication.

1.3 Internal Audit assesses the status of governance within the Council and provides assurance that overall best practice is being followed in corporate governance. In connection with this, a self-assessment questionnaire (Annual Governance Questionnaire hereafter referred to as AGQ) was issued to Finance to assess compliance with the principles of good governance for the Pension Fund based upon the Good Governance Framework produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 The scope of the audit included selecting a sample of responses from the completed 2019/20 AGQ specific to the SICPF and seeking confirmatory evidence across the following areas:

- Business Planning
- Leadership and Governance
- Performance Reporting
- Audit and Inspection
- Human Resources
- Risk Management
- Business Continuity
- Information Technology
- Finance
- Partnership Working
- Legal
- Maintenance of the Fund

2. Audit Opinion

2.1 Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and two recommendations which management should address.

3. Main Findings

3.1 We are pleased to report that the majority of key controls are in place and operating effectively. These include regular reviews of the competency and structure of the Pensions Section, reporting to the Pension Fund

Shetland Islands Council Pension Fund – Governance Arrangements

Shetland Islands Council

Committee/Board and reviewing the performance of the Fund.

3.2 We have identified that Business Continuity arrangements could be improved. The Finance section currently has a Business Continuity Plan (BCP) in place, however this does not cover the business continuity arrangements in relation to the Pension Fund.

3.3 We also found that the Pension Fund risk register was last presented to the Pension Fund Committee in March 2019. Although a specific risk register is maintained for the Pension Fund by the team in Finance, it is not currently recorded on the risk management system, JCAD. We were advised that there is work underway to get the risk register onto JCAD but it has not yet been completed.

3.4 Although a specific Business Plan has not been developed for the Pension Fund, the elements that would be included within such a Plan are recorded elsewhere such as in the funding strategy, administration of the fund and communication and privacy policies. In addition, key roles, scope of responsibilities, governance framework and KPIs are reported through the annual accounts. As such, no recommendation will be made in relation to this.

3.5 Management advised that there are legally binding agreements in place with the five fund managers and contracts in place with the investment consultant

(KPMG) and the Actuary (Hymans Robertson). However, due to the restrictions in place as a result of the COVID-19 pandemic we have unable to evidence this.

3.6 An action plan is provided at section four outlining our observations, risks and recommendations. We have made two recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	2
Low	Lower level controls absent, not being operated as designed or could be improved.	0

3.7 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.8 We would like to thank officers involved in this audit for their cooperation and assistance.

Shetland Islands Council Pension Fund – Governance Arrangements

Shetland Islands Council

4.   Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: A Business Continuity Plan has been produced which covers the operation of the Pension Fund				
1	The Finance section has produced a Business Continuity Plan for the service, however this does not explicitly provide detail in relation to the Pension Fund. We were advised that the expectation is that the Finance Services BCP covers all activities of Finance including those related to the Pension Fund. Although there is no specific BCP for the Pension Fund, arrangements are covered by the Finance BCP albeit this could be improved to ensure it is explicit within the document.	The Finance BCP should be updated to ensure that it is clear that it covers the Pension Fund.	**Medium**	**Response:** The Finance BCP will be updated to make it clear that it covers the Pension Fund **Officer Responsible for Implementation:** Executive Manager – Finance **Timescale for Implementation:** 31 July 2020
Key Control:				
2	A risk register has been prepared specific for the Pension Fund, however it was last presented to Committee in February 2019. In addition the risk register is not currently recorded on JCAD in accordance with the Council Risk Management Policy. Although we were advised that there is work underway to get the risk register onto JCAD but it has not yet been completed	Management should ensure that arrangements are put in place to regularly report the Pension Fund risk register to Committee on a minimum of a six monthly basis. In addition management should ensure that the work to transfer the risk register to JCAD is completed as soon as practically possible. .	**Medium**	**Response:** An updated risk register will be presented to the Pension Fund Committee/Board in July 2020. We are currently in the process of transferring the Pension Fund risk register onto getting the risk register recorded on JCAD to ensure Pension

Shetland Islands Council Pension Fund – Governance Arrangements

Shetland Islands Council

Without presenting the risk register to those charged with governance of the Pension Fund there is an increased risk that the Committee is unaware of the risks currently affecting the Pension Fund. In addition there is a risk that decisions could be taken without taking into account the current risks.			Fund risks are presented and reported consistently in line with the Council's risk management framework. The risk register will be reported to Committee once transferred to JCAD. **Officer Responsible for Implementation:** Executive Manager – Finance **Timescale for Implementation:** 30 September 2020

Agenda Item

4

Shetland Islands Council

Meeting(s):	Audit Committee	15 July 2020
Report Title:	Internal Audit Annual Report 2019/20	
Reference Number:	CRP-19-20-F	
Author / Job Title:	Duncan Black Chief Internal Auditor	

1.0	Decisions / Action required:

1.1 Audit Committee is asked to
   1. NOTE the content of this report and of the Internal Audit Annual Report 2019/20 attached at Appendix 1;
   2. COMMENT on the information provided therein; and
   3. ADVISE the Director of Corporate Services of their views and any recommendations for onward reporting to the Council

2.0	High Level Summary:

The attached Internal Audit Annual report provides Members of the Audit Committee with an overview of the work of Internal Audit for the year ended 31 March 2020.

3.0	Corporate Priorities and Joint Working:

A sound system of internal control and governance arrangements assists the Council in achieving its strategic objectives.

4.0	Key Issues:

4.1 Internal Audit is an independent appraisal function within the Council. Its work is based on an annual audit plan, which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors, and takes account of the work of the Council's external auditor, Deloitte.

4.2 During 2019/20 the role of the Chief Internal Auditor continued to be delivered by Audit Glasgow (Glasgow City Council).

4.3 Internal Audit prepared an annual plan for 2019/20. There are elements of the planned fieldwork that remain ongoing primarily due to resource issues within the Shetland audit team, and also delays in obtaining some information from management. Some of the delays are related to the impact of COVID-19 but Internal Audit has also experienced inadequate interaction from certain areas of the Council, which has adversely impacted the completion of some planned work.

4.4 The annual Internal Audit opinion for 2019/20 is one of reasonable assurance. However, the annual report highlights some significant issues that have been identified from the work of Internal Audit in the year.

5.0	Exempt and/or confidential information:
5.1	None.

6.0	Implications:

6.1 Service Users, Patients and Communities:	The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council. This contributes to the Council's ability to provide Best Value in all its activities.
6.2 Human Resources and Organisational Development:	None directly from this report
6.3 Equality, Diversity and Human Rights:	None directly from this report
6.4 Legal:	Compliance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014
6.5 Finance:	None directly from this report
6.6 Assets and Property:	None directly from this report
6.7 ICT and new technologies:	None directly from this report
6.8 Environmental:	None directly from this report
6.9 Risk Management:	Implementation of the recommendations in Internal Audit reports will help address risks identified through audit activities.
6.10 Policy and Delegated Authority:	The terms of reference for the Council's Audit Committee are set out in the Constitution Part C Scheme of Administration and Delegations Section 2 and specifically includes: • *To consider the annual report, opinion and summary of Internal Audit activity (actual and proposed) including the level of assurance it can give over the Council's corporate governance arrangements and other specific internal audit reports.*
6.11	None	N/A

Previously considered by:		

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Appendices:

Internal Audit Annual Report 2019/20
END

Shetland Islands Council

Internal Audit Annual Report

for the year ended

31 March 2020

1. INTRODUCTION

1.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Council to review the effectiveness of its system of internal control annually and to assess the efficiency and effectiveness of the Internal Audit function. The Regulations also require the Council to approve an Annual Governance Statement.

1.2 The purpose of this report is to provide a review of the performance of Internal Audit for the year 2019/20 and to give an opinion on the adequacy of the Council's system of internal control. This report helps to inform the Council's 2019/20 Annual Governance Statement, which is included in the 2019/20 audited annual accounts. The 2019/20 Draft Annual Governance Statement is included at Appendix 1.

1.3 Internal Audit is an independent appraisal function within the Council. The objectives of Internal Audit are to:

- examine and evaluate internal control systems and governance arrangements within the Council;
- provide assurances to elected Members and senior officials on the adequacy and robustness of these systems; and
- assist elected Members and officers of the Council in the effective discharge of their responsibilities.

1.4 Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services and Internal Audit assesses the adequacy of these arrangements. Internal Audit provides analyses, appraisals, recommendations, advice and information concerning the activities reviewed. Internal Audit reports directly to the Director of Corporate Services, and has unrestricted direct access to the Council's Chief Executive and the chair of the Audit Committee.

1.5 The work of Internal Audit is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors, and takes account of the work of the Council's external auditor, Deloitte.

1.6 As set out in the annual audit plan, Internal Audit adheres to standards and guidelines laid down by relevant bodies and professional institutions. In particular Internal Audit is required to comply with the Public Sector Internal Audit Standards (PSIAS), which have been adopted by the Relevant Internal Audit Standard Setters (RIASS). The RIASS includes, among others, HM Treasury, the Scottish Government and the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.7 The PSIAS include key principles that public sector Internal Audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. As part of the standards, Internal Audit is required to undertake annual self-assessments. The PSIAS also introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The 2019/20 self-assessment and the external assessment undertaken in 2015/16 have confirmed that Internal Audit conforms with the requirements of the PSIAS.

2. REVIEW OF INTERNAL AUDIT 2019/20

2.1 Staffing

2.1.1 During 2019/20 the role of the Chief Internal Auditor continued to be delivered by Audit Glasgow (Glasgow City Council).

2.1.2 The Internal Audit team is led by Glasgow's Head of Audit and Inspection. Audit Glasgow officers manage the audit plan remotely with attendance at key events and committee meetings as required throughout the year.

2.1.3 As at 31 March 2020 there were 1.81 full-time equivalent (FTE) members of staff working in Internal Audit. This is a reduction of 1.0 FTE from the previous year, and additional resources were provided by Audit Glasgow throughout the year to complete some elements of the audit plan. However, some planned reviews have had to be deferred into 2020/21. There are ongoing discussions on how the resource gap can be addressed in the new financial year.

2.2 The Role of the Head of Internal Audit

2.2.1 The CIPFA guidance in relation to "The Role of the Head of Internal Audit in Public Service Organisations" is intended to provide best practice for Heads of Internal Audit (HIAs) to achieve, and for audit committees to measure Internal Audit against. The statement sets out an overarching principles-based framework which applies across the UK public sector. It states that the HIA plays a critical role in delivering an organisation's strategic objectives by:

- championing best practice in governance and management, objectively assessing the adequacy of the management of existing risks, and commenting on responses to emerging risks and proposed developments; and
- giving an objective and evidence-based opinion on all aspects of governance, risk management and internal control.

2.2.2 To perform this role, the HIA must:

- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
- lead and direct an internal audit service that is resourced to be fit for purpose; and
- be professionally qualified and suitably experienced.

2.2.3 For each principle, the statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The statement also sets out the core responsibilities of the HIA.

2.2.4 The role of the Head of Audit and Inspection continues to meet the principles set out in CIPFA's statement.

2.3 Audit Plan Management – Planned Assurance Work

2.3.1 Internal Audit prepared an annual plan for 2019/20. There are elements of the planned fieldwork that remain ongoing primarily due to the resource issues within the Shetland audit team noted at 2.1.3, and also delays in obtaining some information from management. Some of the delays are related to the impact of COVID-19 but Internal Audit has also experienced inadequate interaction from certain areas of the Council, which has adversely impacted the completion of some planned work. Key areas of work that remain ongoing from the 2019/20 audit plan include risk management, treasury management, and procurement.

2.3.2 We also expect that the COVID-19 pandemic will result in significant changes to business processes and key controls, and will give rise to new significant risks to the business. These are being monitored by Internal Audit and an updated internal audit plan for 2020/21 is being developed. Committee will be provided with regular updates on this work.

2.3.3 The Audit Committee receives the full reports for all audits completed during the year.

2.4 2019/20 Audit Issues

General Comments

2.4.1 Audit findings identified during 2019/20 generally fell into the following categories:

- Lack of documented procedures or a failure to update them for changes in business processes or service delivery.
- Failure to adhere to documented procedures leading to errors and inconsistent practices.
- Absence of a defined project management framework leading to inconsistent arrangements.

2.4.2 Where the audit opinion arising from an audit states that the control environment has been assessed as unsatisfactory the concerns highlighted are reported in the Annual Governance Statement. Based on the 2019/20 fieldwork completed to date, there is one area that Internal Audit has concluded falls into that category: arrangements for EU Funding compliance. Whilst there are the expected project level systems and controls in place, there is an absence of a specific comprehensive control framework for EU Funding compliance. Internal audit is discussing appropriate remedial actions with management. This will be formalised into an action plan and completion monitored by Internal Audit.

2.5 Audit Issues Reported in Previous Years

2.5.1 For audit issues reported in the previous year, the update is as follows:

Prior Year Significant Issue	Current Status
Health & Safety risk assessments either not being in place or out of date.	New process for Health & Safety risk assessments implemented. **Complete**
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	A programme of premise visits has been developed. Remaining premises visits to be completed in accordance with the new programme. **Ongoing**
Operational grants processing and monitoring issues.	Grants and Third Parties Payments Framework put in place. **Complete**
Business Continuity – lack of an up to date corporate policy on business continuity. Some services identified which have not yet developed a Business Continuity Plan (BCP), and other services which have a BCP in place but it is out of date.	Business Continuity Policy has been finalised and approved. Options identified for BCP's however not yet taken forward due to COVID-19 pandemic. Lessons learned from COVID-19 will be used to inform the BCP format going forward. **Ongoing**
Fraud Controls – Reconciliations not carried out between key financial systems. System administrators have access to undertake entire accounts payable process, and there is no monitoring of audit logs as a compensating control.	The scope of works to undertake the reconciliations has been agreed. Work due to be completed during Q2 2020/21. **Ongoing**

3. OPINION

3.1 The Council has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

3.2 The impact of Covid-19 in March 2020 was a significant event, impacting normal business operations and risk assessments. As a result of the changes to the working arrangements arising from the pandemic response, in March 2020 many of the expected systems and controls will have been subject to change. The opinion expressed in this report therefore applies only to the period before the emergency service delivery arrangements were put in place.

3.3   Based on the audit work undertaken, the assurances provided by Service Directors, and excluding the issues noted above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20 in the Council for the period before the change to the service delivery models in March 2020.

4.   ACKNOWLEDGEMENTS

4.1   I would like to take this opportunity to express my thanks to all staff from the Internal Audit team for their hard work and commitment throughout the past year. I would also like to thank the many officers in Services who assisted audit staff in the execution of their duties.

Duncan Black
Head of Audit & Inspection
Audit Glasgow

June 2020