

# Orkney Islands Council

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for Orkney Islands Council  
May 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

1. This report contains a summary of the key findings from our interim audit work at Orkney Islands Council. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan that audit and develop an effective audit approach for the annual accounts. They also require us to work closely with internal audit to make best use of the available resources and avoid duplication of effort.

2. This is reflected in our responsibilities under the [Code of Audit Practice](#) which requires us to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We have also, under the [Code of Audit Practice](#), carried out work on the wider dimension audit from our reviews of NFI investigation work, and arrangements for agreeing the budget for 2018/19 and for monitoring outturn against the approved budget for 2017/18.

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

## Conclusion

5. Apart from a few control weaknesses which have been identified and summarised in [Exhibit 1](#), we found that key controls are operating satisfactorily and we are able to take planned assurance for the audit of the financial statements.

6. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Orkney Islands Council.

7. Audit Scotland's methodology is to provide recommendations for areas of risk found during our audit work. We consider that it is the responsibility of management to assess the extent of these risks and to take action where necessary to mitigate these risks. Therefore, our audit approach does not attach any 'risk rating' to the issues included in the action plan below, as we consider all issues we have raised to be of significance to the council.

8. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Work summary

9. Our 2017/18 testing covered key controls and early substantive testing in the following systems:

System	Controls Testing	Early Substantive Testing
General Ledger	✓	
Payroll	✓	
Accounts Receivable	✓	✓
Accounts Payable	✓	✓
Cash & Bank	✓	✓
Housing Rents	✓	✓
Council Tax	✓	✓
Non-Domestic Rates	✓	✓

10. We also assessed the financial controls within social work services for self-directed support, independent homecare and independent care homes to support the assurances required for the audit of the Orkney Integration Joint Board.

11. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

## Risks identified

12. The key control and wider dimension risks identified during the interim audit are detailed in Exhibit 1. Overall, we found that key controls are operating satisfactorily and we are able to take planned assurance for the audit of the financial statements.

**Exhibit 1****Key findings and action plan 2017/18**

<b>Issue identified</b>	<b>Management response</b>	<b>Responsible officer and target date</b>
<b>Audit findings</b>		
<p><b>1. Payroll system – exception reports</b></p> <p>Exception reports are produced for each payroll which detail high net pay and starters and leavers amongst other items.</p> <p>We have been advised that the reports are reviewed and followed up on a regular basis but this is not evidenced.</p> <p>We also noted that the parameters set for the exception reports are relatively high.</p> <p><b>There is a risk that unauthorised changes to payroll data or errors in the payroll system may not be identified timeously.</b></p>	<p>We will evidence the checking of exception reports going forward.</p> <p>Future development of the My view system will also allow Managers to view the payroll costs for their service areas more easily and enable them to sense check their budget positions.</p> <p>A review of the exception report parameters will also be undertaken.</p>	<p>Payments Manager 30 June 2018</p>
<p><b>2. Payroll system - standing data</b></p> <p>The statutory standing data tables in the payroll system detailing new tax and pay rates are updated by the third party supplier (Northgate). No additional checks are completed by the payroll team to ensure accuracy.</p> <p><b>There is a risk that tax and pay rates are incorrect leading to errors in the payroll.</b></p>	<p>We have a high level of confidence that the standing tax and national insurance date tables updated by Northgate are accurate but will carry out a sample check at the next update.</p>	<p>Payments Manager 30 April 2019</p>
<p><b>3. Compliance with Public Sector Internal Audit Standards</b></p> <p>Compliance with Public Sector Internal Audit Standards requires the internal audit function to be independent and objective. Due to the rural and remote nature of Orkney it arises that certain officers are related to one another. This could present a risk to the independence and objectivity of the Chief Internal Auditor or members of the Internal Audit team.</p> <p>On grounds of openness and transparency audit committee members should be apprised of conflicts of interest and measures should be extended to include the use of an external audit resource should a situation require a greater degree of independence.</p>	<p>Should a conflict of interest arise the members of the Monitoring and Audit Committee would be fully apprised of the situation. Where required, an independent auditor from outwith the Council shall be engaged to lead the audit or investigation.</p>	<p>Executive Director of Corporate Services 1 June 2018</p>

Issue identified	Management response	Responsible officer and target date
<p><b>4. National Fraud Initiative (NFI) – Outcomes</b></p> <p>The NFI exercise was completed by the council in late 2017, however, the outcomes of the exercise have not been reported to the Monitoring and Audit Committee.</p> <p><b>There is a risk that members are not being kept up dated on the outcome of national initiatives and overall assurance of controls in place.</b></p>	<p>A report on the outcomes of the NFI will be prepared and reported to the Monitoring and Audit Committee at the next cycle of Council meetings.</p>	<p>Head of Finance 16 June 2018</p>
<p><b>5. Business continuity and disaster recovery plans</b></p> <p>The council has an approved business continuity plan and is currently developing an IT disaster recovery plan.</p> <p>Testing arrangements are also being developed as part of the IT Disaster recovery capital programme project.</p> <p><b>There is a risk that there may be delays in restoring key services after an incident if plans are not fully developed and tested.</b></p>	<p>This is a work in progress. The Service has been taking action to reduce the risk of service interruption, with the migration to cloud based services for email and implementation of Office 365 being a very recent example.</p> <p>There were also a series of power interruptions earlier in 2018 that have provided real training opportunities in recovery action.</p> <p>Due a the delivery of the Office 365 project, the IT Disaster Recovery Capital Programme has been rescheduled and started on 1 April 2018. This remains a three year programme and is due to be fully completed by 31 March 2021.</p>	<p>Head of IT and Facilities 31 March 2021</p>
<p><b>6. IT back-up arrangements</b></p> <p>The council reviewed and tested their IT back-up arrangements by recovering data from their backup systems on six occasions during 2017/18.</p> <p>However, the council do not yet have a scheduled process in place to test backups on a regular basis.</p> <p><b>There is a risk that it may not be possible to restore systems successfully in the event of an incident.</b></p>	<p>A scheduled programme of testing recovery of data from backup systems is now in place.</p>	<p>Head of IT and Facilities</p>

Source: Audit Scotland

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500