



Shetland Islands Council

2014/15 annual audit
report to Members and
the Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed of David McConnell as the external auditor of Shetland Islands Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Shetland Islands Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Unqualified auditor's report on the 2014/15 financial statements of Zetland Educational Trust administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management remains strong with a robust budget setting process in place.• The council is financially sustainable currently and in the foreseeable future although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.• The achievement of the savings set out in the council's Medium Term Financial Plan (MTFP) will be significant in ensuring the council's continued financial sustainability.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The council has sound governance arrangements in place.• Systems of internal control operated effectively.• The council has an effective internal audit function and sound anti-fraud arrangements.



Best Value

- The council continues to develop its arrangements for monitoring and reporting performance against strategic priorities.
- Substantial progress has been made towards delivering the objectives set out in the Corporate Plan.
- The council has significantly improved its performance in meeting the requirements of the Public Performance Reporting (PPR) criteria from the previous year.



Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Shetland Islands Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Shetland Islands Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Shetland Islands Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvement.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Shetland Islands Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor’s report.
Going concern	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trust have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trust’s ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements. We conducted appropriate audit work to ensure that the transfer of all assets and undertakings of the Shetland Development Trust to the council in February 2015 was properly disclosed and accounted for in the financial statements of the council. We have no issues to report in respect of this matter.
Charitable trusts	<ul style="list-style-type: none"> We have completed our audit of the 2014/15 financial statements of the Zetland Educational Trust administered by Shetland Islands Council and issued an unqualified independent auditor’s report for this charitable trust.
Group accounts	<ul style="list-style-type: none"> Shetland Islands Council has accounted for the financial results of the three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £113.8 million.
Whole of government accounts	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit by the deadline. This has been audited and the

certified return submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 29 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 24 February 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the

audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

The audit of charities financial statements

14. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) set out the accounting and auditing rules for Scottish charities. These require a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
15. We have given an unqualified opinion on these matters with respect to the 2014/15 financial statements of Zetland Educational Trust.

Group accounts

16. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
17. Shetland Islands Council has accounted for the financial results of three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £113.8 million.

Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Shetland Islands Council we set our planning materiality for 2014/15 at £1.7 million (1% of gross expenditure). We report all misstatements greater than £0.02 million. Performance materiality was calculated at £0.85 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

22. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to reduce the surplus on the provision of services in the 2014/15 Annual Accounts by £0.525 million.

Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
24. There are no matters, others than those set out elsewhere in this report, to which we wish to draw your attention.

Future accounting and auditing developments

Revisions to the Code of Practice

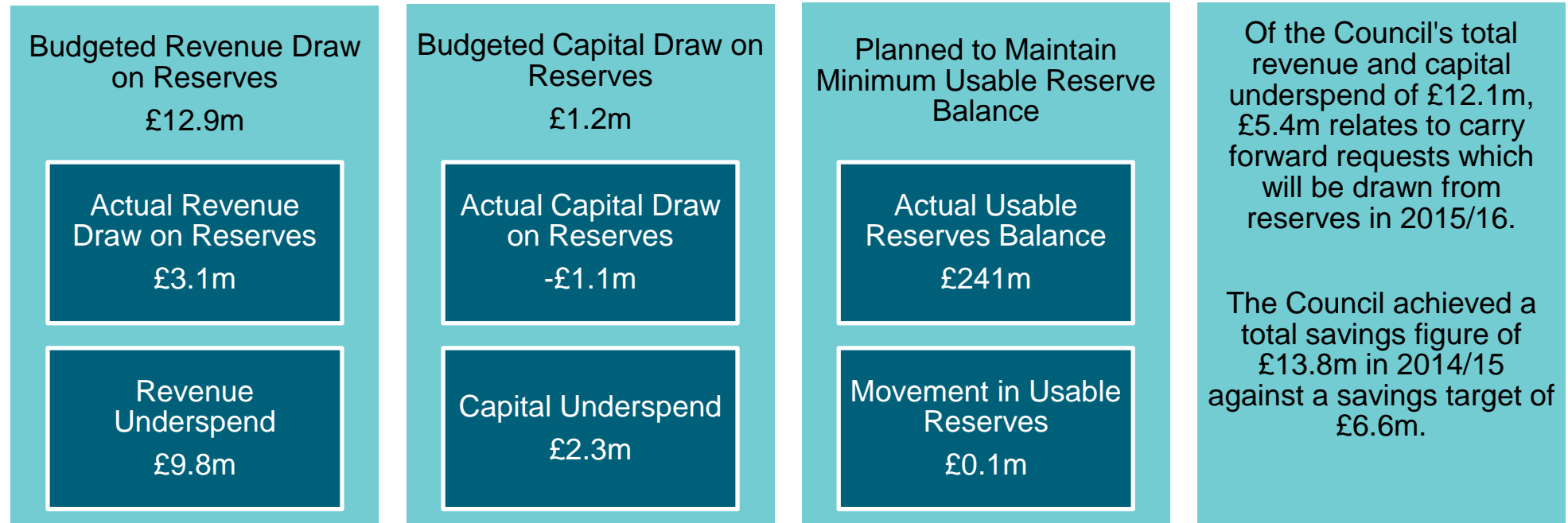
25. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
26. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
27. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability

of complete and accurate management information on highway assets.

Health and Social Care Integration

28. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements.

Financial management and sustainability



Financial management

29. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
30. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

31. The council reported a surplus of £0.498 million on the provision of services in the 2014/15 Annual Accounts. Adjusting this balance to remove the accounting entries required by the Code, the council's general fund balance decreased by £0.9 million.
32. The 2014/15 budget, approved by the Council on 11 December 2013, had a planned total draw on reserves of £14.8 million that included £6.6 million of budgeted savings. As the council secured higher than expected levels of savings of £13.8 million, the actual total draw (revenue and capital) on reserves was £2 million.
33. The council's draw on reserves for revenue purposes was £9.8 million less than budgeted. This was as a result of
- an underspend across services of £7.2 million
 - Housing Revenue Account (HRA) underspend of £0.2 million
 - Harbour Account exceeded surplus of £2.4 million.
34. As a result of slippage in the capital programme, the council's draw on reserves for capital purposes was £2.3 million less than budgeted.
35. Overall, the council reported an underspend of £4.4 million against budgeted general fund services net expenditure of £110.6 million. This was due mainly to underspends in the following services:
- Children's Services - £1.2 million underspend was due to underspends on energy and maintenance, supplies and services and additional grant income
 - Community Care Services - £1.4 million underspend was due to underspends on employee costs and additional boarding and accommodation income
 - Development Services - £1.3 million underspend was due to underspends on grants, increased income from Shetland Telecom, fishing quota and the European Union.
36. The council is required by legislation to maintain a separate HRA and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The HRA budgeted for a £0.2 million contribution to the Housing Repairs & Renewals Fund in 2014/15 which was exceeded by £0.2 million, giving a total contribution of £0.4 million. However, the financial position of the HRA continues to be a challenge for the council due to the need to invest in the housing stock to meet national housing standards targets by 2015.

Financial management arrangements

37. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
38. The council experienced changes in its Finance personnel during 2014/15, which is often a source of risk for organisations in terms of financial accounting and control. Also, the role of Executive Manager – Finance (Section 95 Officer) was the subject of changed arrangements. This is a key position within the council for ensuring that effective financial planning and management arrangements are in place. The Section 95 officer also has an obligation to ensure that the council's financial statements are prepared in accordance with the Code. The council reached an agreement during 2014/15 with Aberdeen City Council to jointly share the Head of Finance at Aberdeen City Council who will carry overall responsibility for the proper administration of both councils' finances.
39. We note that this is a fixed term arrangement at present, and we will continue to monitor the impact of this new approach on the delivery of the council's financial management objectives.
40. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
41. We reviewed the council's financial regulations and concluded that they are comprehensive. The council's financial regulations are available on the council's website.
42. Financial monitoring reports (both revenue and capital) are submitted to the Council and service committees on a quarterly basis. Reports are comprehensive and well laid out. Service committees also receive directorate performance reports on a quarterly basis.
43. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

44. We have concluded that the council's financial management arrangements are satisfactory with close budget monitoring and regular reporting to members.

Financial sustainability

45. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
46. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

47. The overall level of usable reserves held by the council increased by £0.1 million compared to the previous year and totalled £241 million, as shown in Exhibit 1. The closing usable reserve balance at 31 March 2015 is made up of a number of earmarked commitments. The main commitments include:
- Capital Fund of £63.5 million
 - Repairs & Renewals Fund of £44.3 million
 - Harbour Contingency of £42.2 million

Exhibit 1: Usable reserves

Description	31 March 2014	31 March 2015
	£ million	£ million
General Fund	13.860	12.998
Capital Grants Unapplied	1.920	0.643
Capital Receipts Reserve	71.783	73.840
Other Revenue/Statutory Funds	153.309	153.474
Total Usable Reserves	240.872	240.955

Source: Shetland Islands Council 2014/15 financial statements

48. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
49. The council's strategic financial management plans require, in the medium and long term, the council to maintain its usable reserve balance at an appropriate level.

Financial planning

50. The council set its 2015/16 budget in December 2014. The 2015/16 budget had a planned total draw on reserves of £6.9 million and assumes savings of £3.3 million. The savings are planned to be

achieved through service efficiencies and by focussing on eradicating historic over-budgeting for risk items.

51. In August 2015 the council's projected 2015/16 outturn position was a total underspend of £3.5 million against the revised budget. This includes underspends of £1.7 million on revenue, £1.5 million on capital and £0.3 million on spend to save initiatives.
52. The council updated its Medium Term Financial Plan (MTFP) in July 2014. The MTFP sets out its plan to deliver a budget with a sustainable draw on reserves and will require
- savings of £15.3 million to be made over the period 2014/15 to 2019/20
 - a possible net draw on reserves of over £8.2 million over the five year period 2014/15 to 2018/19 (total draw of £72.2 million and expected income of £64.0 million).
53. While the council has been proactive in its approach to identify savings opportunities, the achievement of these savings will become progressively more challenging year on year.

Recommendation 1

Capital programme 2014/15

54. The council approved its asset investment plan (capital programme) for 2014/15 in December 2013. Total capital expenditure for 2014/15 was £12.5 million (including housing). The most significant items of capital spend were:
- £1.3 million on the Scalloway School NHS Conversion

- £1.9 million on the new Anderson High School (AHS)
- £1.3 million on Vehicle and Plant Replacement
- £1.5 million on Housing Quality Standards (HRA)

55. The council reported a total underspend of £4.2 million against the planned level of capital expenditure of £16.7 million (25% of the total programme for 2014/15). Although there was an overspend of £1.3 million on the new Anderson High School project due to accelerated spending, this overspend was offset by slippage on the following projects:

- Scalloway School NHS Conversion – £0.636 million
- Clickimin Roundabout/Access Road - £0.751 million
- AHS Clickimin Path –£0.7 million
- ET & Taing Phase 2 - £1.1 million
- Ferry/Terminal Life Extensions - £0.580 million
- Bridge Replacements - £0.484 million
- Town Hall Conservation – £0.396 million

56. A certain level of slippage on capital projects can occur, particularly in complex projects. However, significant delays may have an impact on the council's MTFP and on the council's ability to meet its objectives and deliver services.

Recommendation 2

Asset Management

57. In December 2014 the council agreed its five year Asset Investment Plan 2015-20 which is aligned with its MTFP. The focus of the Asset Investment Plan is on the maintenance of existing assets rather than the creation of new assets. The main exception to this will be the construction of the new Anderson High School.
58. Each year, as part of the annual budgeting process, an annual asset investment plan is agreed. Quarterly monitoring reports on capital expenditure are submitted to service committees, detailing the progress of capital projects within the current financial year.

Workforce Management

59. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its service.
60. The council continues to develop arrangements to manage its staff and has a number of policies and procedures in place covering staff development, performance management and attendance. However the council does not have a documented workforce strategy in place. The development of a workforce strategy is one of the objectives of the Corporate Plan and it was intended that a strategy would be in place by the end of 2014. However, a workforce strategy is not yet in place.

Recommendation 3

61. During 2014/15 there were 36 exit packages agreed with employees at a total cost of £1.033 million (2013/14 – 170 exit packages with a total cost of £3.019 million).

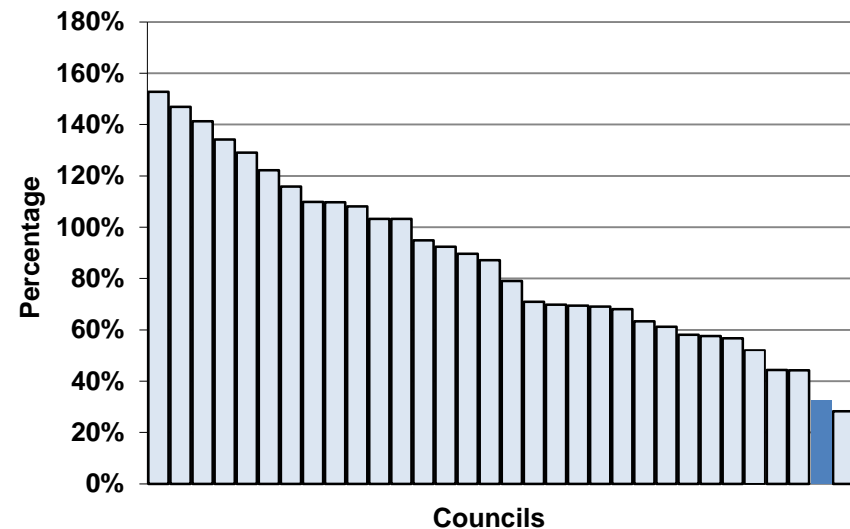
Treasury Management

62. The council has not had any external borrowing for 20 years and has had a policy to fund all capital expenditure from its reserves. However, in December 2013, the council agreed a new Borrowing Policy and Strategy 2013-18 in order to
- secure best value in the financing of capital expenditure
 - maintain reserve levels.
63. The two capital projects funded from external borrowing during 2014/15 were the new Anderson High School (DBFM and DBDA construction contract value £55.75million) and Housing Revenue Account historical internal borrowing (debt of £16 million as at 31 March 2014).
64. As a result of this change in policy, at 31 March 2015 long term borrowing stood at £31 million (Nil at 31 March 2014). Funds held for investment at 31 March 2015 were £278 million (£203.5 million at 31 March 2014). The increase in investments is mainly attributable to revaluations of £24 million and additional cash investments of £46 million as a result of temporary funds invested from PWLB borrowing, funding provided by Westminster to write-off internal HRA debt and the sum transferred from the Shetland Development Trust on winding up during 2014/15.

65. Financial investments are covered by the council's Investment Strategy 2013-18 that is intended to
- support the council's MTFP
 - reduce fund manager fees
 - lower the risk of large negative returns whilst maintaining similar levels of return to that achieved in recent years.
66. The Investment Strategy required changes to the way the council's funds are invested. An active equity mandate was replaced with a passive equity mandate and a diversified growth fund mandate was added to the strategy. There have also been changes to the council's fund managers.
67. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils, including Shetland Islands Council. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report was published in March 2015 and the report makes reference to the council's change in policy in relation to external borrowing outlined in the above paragraphs.
68. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 2 below shows long term borrowing as at 31 March 2015 as a proportion of the net revenue stream for the year for all

councils in Scotland. Shetland Islands Council is highlighted in Exhibit 2 as having the second lowest rate in Scotland which is due mainly to the specific financing arrangements used by the council (see paragraph 62).

Exhibit 2: Scottish councils' long term borrowing as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2014/15

Pension liability

69. The pension liability on the council's balance sheet has increased from £148.6 million in 2013/14 to £183.4 million in 2014/15, an increase of £34.8 million. This is also reflected in the balance sheet for the group.

70. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial actuarial valuation at 31 March 2014 the Shetland Islands Council Pension Fund was 91.7% funded and had assets of £333 million with new contribution rates becoming effective from 1 April 2015. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets. The next valuation will take place in 2017 with new contribution rates in place from 1 April 2018.

Conclusion on financial sustainability

71. We have concluded that the council is containing its expenditure within annual budgets and has an appropriate MTFP in place. Overall the financial position is sustainable currently, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. The achievement of the savings set out in the council's MTFP will be significant in ensuring the council's continued financial sustainability.

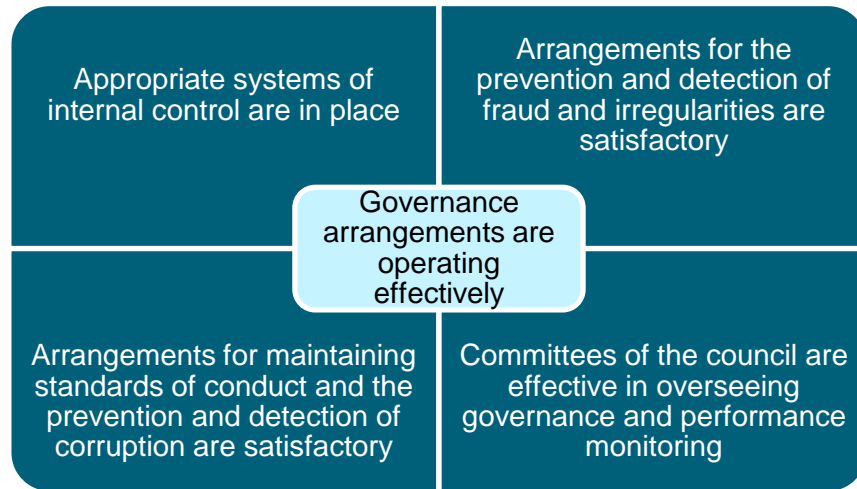
Outlook

72. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to

population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.

73. In common with many other councils, Shetland Islands Council is now reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

Governance and transparency

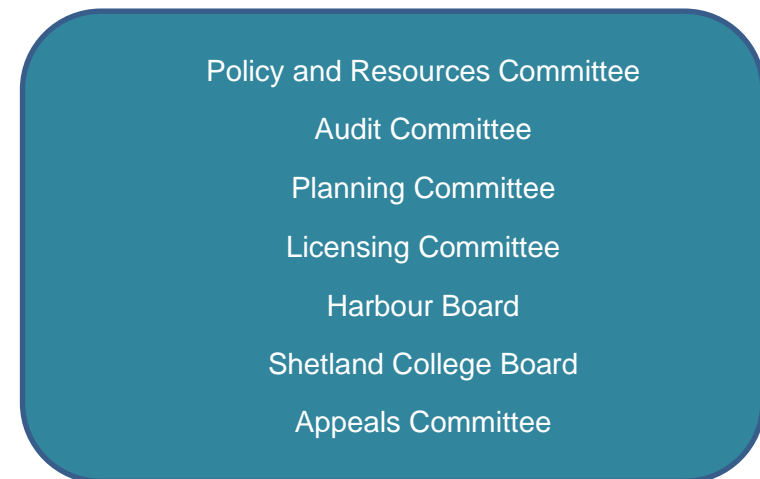


- 74. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
- 75. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent.

Corporate governance

- 76. Within Shetland Islands Council the corporate governance arrangements are supported by the following standing committees:



- 77. The council also has the following functional committees:



78. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Shetland Islands Council are operating effectively.

Local code of corporate governance

79. The council developed and adopted a local code of corporate governance in September 2012 which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. Although the local code highlights that it would be reviewed on an annual basis to ensure its ongoing effectiveness, there is no evidence that an annual review has been carried out by members and officers. In addition, we noted that it is a council requirement that six monthly updates on the code of corporate governance are presented to the Audit Committee but there is no evidence that this requirement has been followed.

Recommendation 4

Internal control

80. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
81. We reported our findings to the Audit Committee in May 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record,

process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control systems in operation.

Internal audit

82. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
83. Our review of internal audit concluded that the internal audit service operates satisfactorily in accordance with the Public Sector Internal Audit Standards and that we could place formal reliance on the planned areas set out in our 2014/15 Annual Audit Plan.

ICT audit

84. During 2014/15 we undertook a review of the council's arrangements in relation to cyber security. Our review identified that:
- the corporate risk register does not recognise the risk of a cyber-attack. As cyber security is one of the highest priority national security risks, organisations need to recognise this issue within their risk registers.

- although the council has an Incident Response Plan in place, this has not been reviewed and updated since it was first implemented in 2010.
85. However, we acknowledge that the council is proactive in relation to cyber security and work in this area includes fortnightly Security Review Team meetings, weekly Operations Analyst meetings and also participation in various national security groups such as the Cyber Security Information Sharing Partnership.

Recommendation 5

Arrangements for the prevention and detection of fraud

86. Overall, we concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

National Fraud Initiative in Scotland

87. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has

been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

88. During 2014/15 we reviewed the progress being made by the council in following up NFI data matches. Our work identified that:
- the council's Audit Committee have not reviewed the self-appraisal checklist included in the 2014 NFI Report as a means of monitoring the council's planning and progress with the 2014/15 NFI exercise
 - due to staff absence the dataset for blue badges in 2014/15 which had been uploaded in previous years was not uploaded to the NFI database
 - progress in following up high priority NFI data matches is slow
 - there is no evidence that NFI progress or outcomes is reported internally to senior management or the council's Audit Committee.
89. Although the number of high priority NFI data matches to be followed up by Shetland Islands Council is low in comparison to the majority of other Scottish councils, these matches should be followed up timeously to ensure potential fraud is addressed and allow the council to improve internal arrangements for preventing and detecting fraud if necessary.
90. We are aware that management are reviewing the current NFI arrangements in order to improve the council's NFI co-ordination process.

Recommendation 6

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

91. The arrangements for the prevention and detection of corruption in Shetland Islands Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

92. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.
93. Through our audit approach we gave consideration to:
- the clarity and presentation of the council's committee papers, budget monitoring reports and financial statements
 - the regularity with which the council excludes the press or public from agenda items under the Local Government (Scotland) Act 1973
 - the council's approach to public performance reporting
 - accessibility of information via the council website.
94. Overall we concluded that the council has appropriate arrangements in this area.

Freedom of Information (FOI) requests

95. During 2014/15 the council received 851 FOI requests and 739 requests (87%) were responded to within 20 days. Of the 851 FOI requests received, all information was provided for 737 requests (87%) with partial or no information provided for the remaining 114 requests. During the period there were 6 appeals against denial of FOI requests but no decisions were overturned. One of these appeals has been appealed further to the Office of the Scottish Information Commissioner and the council is awaiting the outcome of this appeal.

Integration of health and social care

96. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
97. Shetland's Integration Joint Board (IJB) was formally constituted on 27 June 2015. The IJB will assume responsibility for the functions delegated to it by Shetland Islands Council and NHS Shetland when the IJB approves and adopts the joint Strategic (Commissioning) Plan 2015-18 which will be presented to a meeting of the IJB in August 2015. The arrangements for the commencement of the IJB will be reviewed by internal audit during 2015/16.
98. The first meeting of the Shetland IJB took place on 20 July 2015 and is made up of three councillors, three NHS Shetland health board members and a number of health and social care

professionals as non-voting members. The council's Social Services Committee will be disbanded once the IJB is fully up and running.

Welfare Reform

99. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. As a result, the council is represented on the Shetland Welfare Reform & Financial Resilience sub-group which considers the impact of welfare reform changes.
100. Since the introduction of the "Spare Room Subsidy" in April 2013 there have been a number of households in Shetland that have been affected by the change. However due to Discretionary Housing Payments (DHP), no households in Shetland have suffered any financial impact from under occupancy. During 2014/15 the council received total DHP funding from the Department for Work and Pensions and the Scottish Government of £0.137 million of which £0.102 million was awarded to 223 claimants.
101. The phased implementation of Universal Credit started at the council in mid-May 2015, with only 8 claims to August 2015 with housing costs.
102. The council reported housing rent arrears of £206,000 as at 31 March 2015 (2014: £161,000), an increase of 28% relating to 433 properties (2014: 319). Therefore, 25% of the council's housing stock is in arrears at 31 March 2015 compared to 18% in the previous year.

Recommendation 7

Housing benefits performance audit

103. In June 2015 an Audit Scotland report on behalf of the Accounts Commission identified some risks relating to the performance of housing benefit services across councils and their ability to deliver improvements going forward. Key risks identified were:
 - Business planning and performance reporting weaknesses were noted. Specifically, either targets are not set for all areas of the service and/or there is limited reporting to senior management in respect of all areas of the service. Audit Scotland appreciate that the delay and uncertainty around the roll-out of Universal Credit has made it difficult for councils to plan ahead. However, despite this some housing benefit services could do better.
 - Housing benefit cases selected for quality checking by council staff are selected without a focus on higher risk cases. While in most instances processes are in place to record the results of quality checks, the results are not analysed to a level to inform a risk based approach to checking, either by officer or claim type.
104. These are relevant risks to the council and present a challenge to the delivery of improvements in this area.
105. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to Shetland Islands Council in April 2015.

Local scrutiny plan

106. The LSP highlights that, although no scrutiny risks have been identified which require specific scrutiny by the LAN in 2015/16, there are a number of areas where the LAN will carry out ongoing oversight and monitoring. These include:

- risk management
- financial planning and management
- leadership and governance
- asset management
- education and children's services.

107. We will revisit these areas as part of the shared risk assessment process for 2015/16.

Following the public pound

108. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).

109. Although Shetland Islands Council does not make use of ALEOs, we confirmed that the council has appropriate governance arrangements in place in respect of community grants, economic development grants and funding provided to procure services from the local third sector.

110. By Autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following

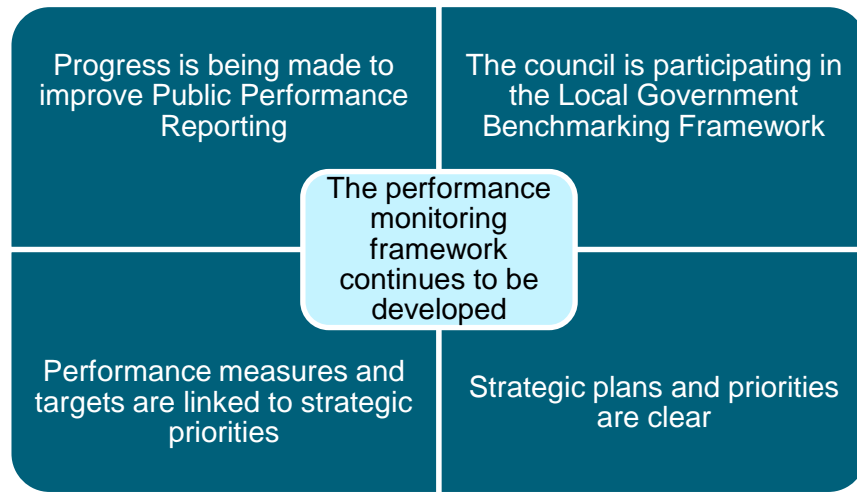
the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

Outlook

111. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

112. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



113. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Procurement

114. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The council reported a 2014 PCA assessment score of 40% (35% in 2013) against the average

score across Scottish councils of 62%. The council has established a PCA Improvement Plan to help deliver further improvement.

115. The annual PCA is being replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The timings of the first assessments for local government have not been finalised but it is anticipated they will be conducted between January and June 2016.

Performance management

116. The council is committed to having a strong framework in place for monitoring and reporting performance. The Planning and Performance Management Framework (PPMF) is regularly updated as the council's arrangements for improving performance continue to be developed. The latest update in May 2014 was made to clarify:

- the integration of Financial and Service Planning timetables
- the link between planning and risk management.

117. The PPMF sets out the arrangements for delivering corporate objectives including the planning, monitoring and reporting arrangements. It shows how operational objectives are linked to strategic objectives, who has accountability for each plan and who has responsibility for each process.

- 118.** Quarterly PPMF reports are submitted by each directorate to the relevant committee and these reports are undergoing presentational changes during 2015/16 as the council moves towards better utilising the covalent performance management system. In addition, a Performance Management Strategy is to be developed during 2015/16 which will be reported to Policy & Resources Committee for approval.
- 119.** We note the council's progress towards developing robust and effective performance management arrangements. Effective arrangements are important to the delivery of the council's strategic and operational objectives. The council should continue to work to improve its performance management arrangements.

Overview of performance targets in 2014/15

- 120.** The Corporate Plan 2013-17 sets out ambitious objectives for the council and is currently in the process of being refreshed by council officers. During May 2015, each service committee received the 2014/15 year end performance report for the relevant directorate. These performance reports provide members with a summary of activity and performance for each directorate in relation to both corporate plan priorities and directorate plan priorities and are presented to committees on a quarterly basis throughout the year. Our review of these 2014/15 year end directorate performance reports noted that the council reported substantial progress against delivery of its corporate plan priorities, with very few priorities highlighted as not progressed.

- 121.** In addition to directorate performance reports, in May 2015 the Council received a report which provided an update on the Corporate Plan 2013-17 which highlights what actions have been delivered to meet the plan's underpinning objectives and also sets out targets for 2015/16.
- 122.** In September 2015 the council are due to report progress against performance indicators which will be submitted to the Improvement Service in August 2015 as part of the Local Government Benchmarking Framework (LGBF). In comparison to 2013/14, six indicators have improved, six areas have declined and two have stayed the same. Areas of improvement include the cost of collection of council tax collection and asset management. Areas that have declined include sickness absence and the number of visits to pools, libraries and museums.
- 123.** LGBF indicators are incorporated into directorate service plans and are reported to relevant committees, but not necessarily quarterly, as some are measured only annually.

Statutory performance indicators (SPIs)

- 124.** The Accounts Commission places great emphasis on councils' responsibility for Public Performance Reporting (PPR). The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
- 125.** For 2014/15 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- 126.** An evaluation of all Scottish councils' approaches to PPR was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for Shetland Islands Council was issued to the Chief Executive in July 2015.
- 127.** Shetland Islands Council was rated as fully meeting the requirements in 12 of the 26 PPR categories, with the remaining 14 categories assessed as being an area for improvement. This represents a significant improvement from the previous year's results where the council was assessed 0% fully, 76% partially and 24% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2016.
- 128.** During 2014/15 the local audit team reviewed the council's PPR arrangements. Overall we found that the council was committed to improving its arrangements and has plans in place to do so. There is room for improvement in the Council's arrangements for collecting, reporting and publishing performance information that the community would like to see.

National performance audit reports

- 129.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in **Appendix III**. Shetland Islands Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Equalities

- 130.** The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- 131.** We noted that the council published its Equality Outcomes Progress and Mainstreaming Report (including employment monitoring information) in April 2015 which is available on the council's website.

Outlook

- 132.** In common with other councils, Shetland Islands Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding

gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>ISA 240 presumes an inherent risk of fraud where income streams are significant.</p> <p>Shetland Islands Council receives a significant amount of income in addition to Scottish Government funding. The size and diversity of income streams flowing to the council means that there is an inherent risk that income could be materially misstated.</p>	<ul style="list-style-type: none"> • Evaluation of accounting policies for income and expenditure • Detailed testing of journal entries • Review of accounting estimates • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. • Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements. 	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>

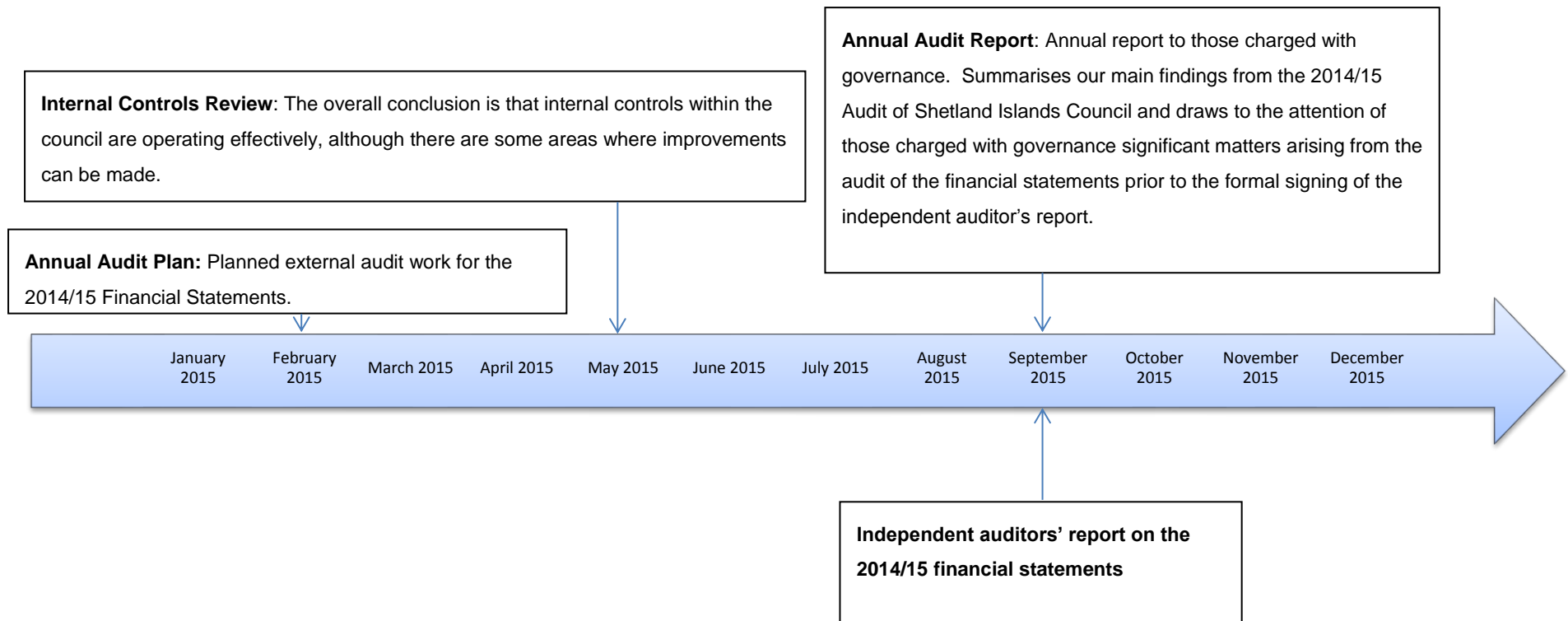
Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates • Evaluating significant transactions that are outside the normal course of business • Focused testing of accruals and prepayments 	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p>Valuations</p> <p>The financial statements of Shetland Islands Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Completion of ‘review of the work of an expert’ for the professional valuer. • Focused substantive testing of key areas. 	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>No material misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Finance function – senior appointments</p> <p>Changes across the finance function may impact upon the operation of financial management and accounting arrangements.</p>	<ul style="list-style-type: none"> • Audit of financial statements to ensure compliance with the Code. • Provide an update in the annual audit report. • Review financial reporting to committee throughout year. • Ongoing liaison with finance staff to ensure that the unaudited financial statements are prepared in line with the Code. 	<p>We liaised with finance staff throughout the year and reviewed the financial statements to ensure compliance with the Code. We also reviewed the format and content of budget monitoring reports submitted to service committees during the year.</p> <p>No issues were identified in respect of financial management and accounting arrangements.</p>
<p>Borrowing</p> <p>As borrowing is a new area for the council there is a risk that borrowing transactions are not appropriately managed and/or reported in the financial statements.</p>	<ul style="list-style-type: none"> • Design and perform audit tests to ensure borrowing transactions disclosed in the financial statements comply with the Code. • Ongoing liaison with finance staff to ensure that the borrowing transactions are disclosed in line with the Code. 	<p>We reviewed the controls in place over borrowing transactions and undertook testing of the amounts disclosed in the financial statements.</p> <p>No issues or errors were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Shetland Development Trust (SDT)</p> <p>There is a risk that transactions relating to the transfer of the SDT are not properly disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Design and perform audit tests to ensure the SDT transfer transactions disclosed in the financial statements comply with the Code. • Ongoing liaison with finance staff to ensure that the SDT transfer transactions are disclosed in line with the Code. 	<p>We liaised with finance staff throughout the year to ensure SDT transfer transactions complied with the Code. We also conducted appropriate audit work to ensure that the transfer of SDT was properly disclosed and accounted for in the financial statements of the council.</p> <p>The transfer of the SDT is properly disclosed in the council's financial statements.</p>
<p>Group Accounts</p> <p>There is a risk that the group accounts disclosures in the financial statements do not include accurate and reliable financial information for Shetland Charitable Trust (SCT).</p>	<ul style="list-style-type: none"> • Early financial statements planning meeting and review. • Regular audit liaison meetings with finance staff. 	<p>We worked with finance staff on this matter during the year to ensure the sign-off deadlines were achieved. We audited the working papers provided by the council in support of the Group Accounts disclosures in the financial statements.</p> <p>The SCT financial information is properly disclosed in the council's financial statements.</p>

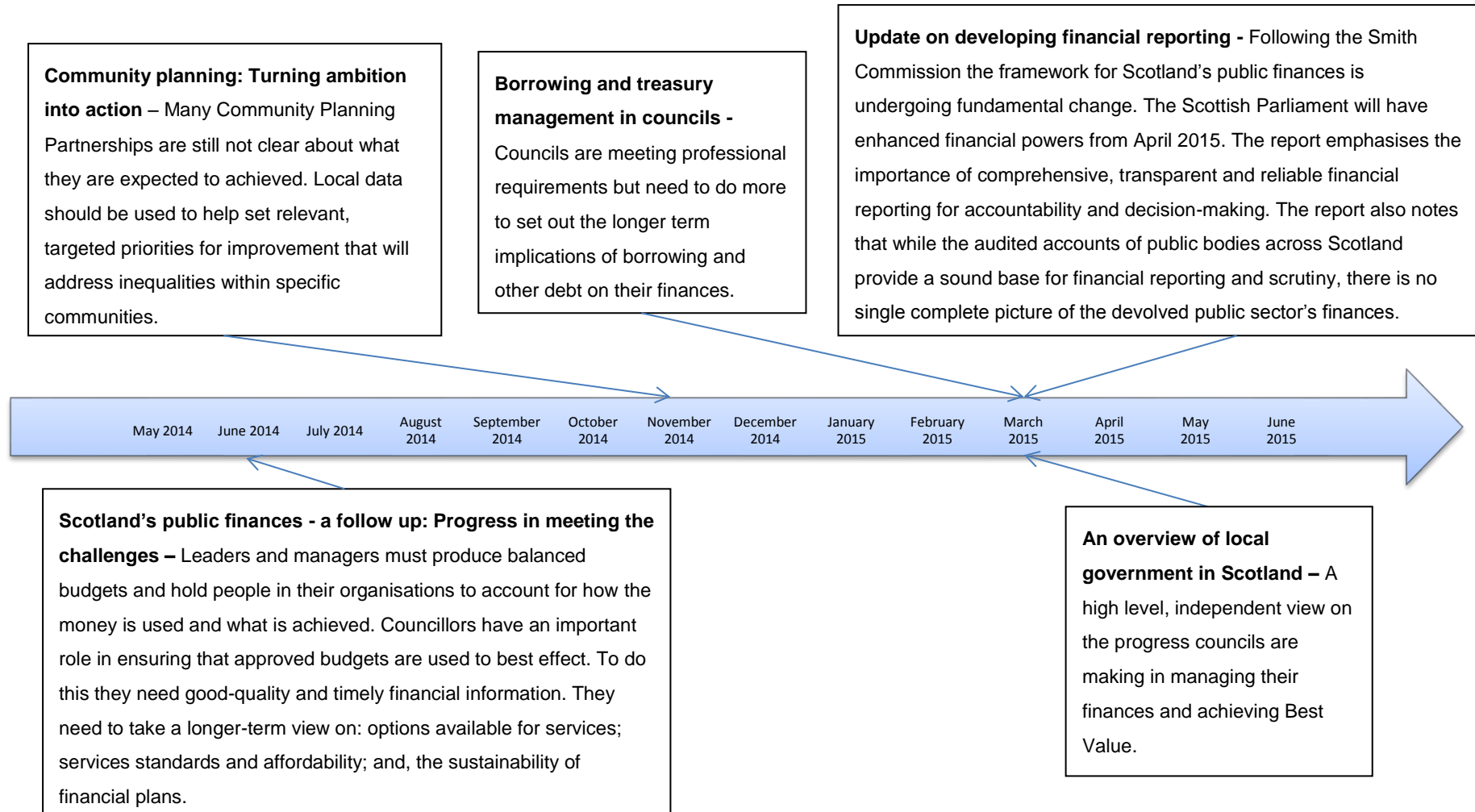
Appendix II – Summary of local audit reports 2014/15

Summary of Shetland Islands Council local audit reports 2014/15



Appendix III – Summary of national reports 2014/15

Summary of Audit Scotland national reports 2014/15



Appendix IV – Action plan

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 16/53	<p>Medium Term Financial Plan</p> <p>The council's Medium Term Financial Plan requires significant savings to be delivered over the coming years.</p> <p>Risk</p> <p>Savings are not achieved and there is a larger draw on reserves than planned.</p> <p>Recommendation</p> <p>Progress against planned savings targets continues to be monitored and corrective action taken to address any significant variances.</p>	<p>Monthly monitoring of Council financial performance is undertaken by Finance and Service staff and quarterly reporting is in place for all Council accounts to Councillors.</p> <p>The refresh of the Medium Term Financial Plan will capture the latest data available recognising the risk relating to the assumptions around future Scottish Government funding levels. This will present the framework for work to continue by Services, preparing for and delivering on future saving plans.</p>	Executive Manager – Finance	<p>Ongoing</p> <p>30 November 2015</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 16/56	<p>Capital Programme Slippage</p> <p>There was a 25% slippage in the 2014/15 capital programme.</p> <p>Risk</p> <p>Delays in the capital programme impact on the council's ability to deliver its objectives.</p> <p>Recommendation</p> <p>Reasons for capital slippage should be investigated and appropriate action taken to minimise the risk of future delays with capital projects. This should include learning lessons from past delays.</p>	<p>The reasons for this slippage are understood and varied. The significantly reduced Asset Investment Plan resulted in the Council's technical teams being reduced commensurately. The development and design stages of larger projects can be challenging, however the buoyant construction market also means external resources and supply chain are not always available. Using this experience the capital investment plan and Long Term Asset Investment Plan, currently being prepared, aim to build in achievable levels of spending and delivery of projects moving forward.</p>	Executive Manager – Capital Project	31 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 17/60	<p>Workforce Management Strategy</p> <p>The council does not yet have an approved workforce management strategy in place.</p> <p>Risk</p> <p>The council may be less effective at delivering on its agreed objectives if resources are not strategically managed.</p> <p>Recommendation</p> <p>The council should approve a workforce strategy during 2015/16.</p>	<p>Work has commenced on this strategy and the Council will be asked to adopt a strategy when the data collection, consultation and officer / management processes are complete.</p>	<p>Executive Manager – Human Resources</p>	<p>30 April 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 21/79	<p>Code of Corporate Governance</p> <p>The council's local code of corporate governance (September 2012) contains a requirement to be reviewed on an annual basis. However, no annual review has been carried out by members and officers. In addition, six monthly updates on the local code of corporate governance have not been presented to the Audit Committee as required.</p> <p>Risk</p> <p>The local code of corporate governance is not effective and does not reflect current legislative and good practice requirements.</p> <p>Recommendation</p> <p>The local code of corporate governance should be reviewed annually by members and officers to ensure its ongoing effectiveness and regular updates should be provided to the Audit Committee.</p>	<p>The code of corporate governance will be reviewed on a regular basis to ensure it reflects the corporate governance framework of the Council and its effectiveness will be considered as part of the Annual Governance Statement.</p>	<p>Executive Manager- Governance and Law</p>	<p>30 April 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 22/85	<p>ICT Audit – Cyber Security</p> <p>The corporate risk register does not recognise the risk of a cyber-attack. In addition, the council’s Incident Response Plan has not been reviewed and updated since it was first implemented in 2010.</p> <p>Risk</p> <p>The council do not have the resources or plans in place to deal with cyber-attacks.</p> <p>Recommendation</p> <p>The council should update the corporate risk register to recognise the risk of a cyber-attack and ensure there are plans and resources in place to deal with such an attack.</p>	<p>Risk no. X0I0030 – Malicious Cyber-attack has been updated from an operational risk to a corporate risk. The resources we currently apply to Cyber Security are:</p> <ul style="list-style-type: none"> • Fortnightly Security Review Team meetings to discuss and make decisions on SIC ICT security; responses to any incidents including any alerts from the Government Computer Emergency Response Team (GovCert UK) • Weekly Operations Analyst meeting to review our various security logging systems such as Intrusion Detection System, Windows Update Services, Antivirus Monitoring etc. and to remedy any issues • Participation in various national security groups such as the Cyber Security Information Sharing Partnership • Manage and maintain the various security system on the network on a daily basis. <p>The Incident Response Plan will be reviewed and updated where necessary.</p>	<p>Executive Manager – ICT</p> <p>Executive Manager - ICT</p>	<p>Completed</p> <p>30 September 2015</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>6 22/90</p>	<p>National Fraud Initiative (NFI)</p> <p>The council's progress in following up NFI data matches has been slower than expected.</p> <p>Risk</p> <p>Potential fraud cases are not identified due to NFI matches not being followed up timeously.</p> <p>Recommendation</p> <p>The council should review the current NFI arrangements in order to improve the council's NFI co-ordination process.</p>	<p>Agreed.</p> <p>Will undertake a review of the current NFI arrangements in order to improve the Council's NFI co-ordination process.</p>	<p>Team Leader – Revenues and Benefits</p>	<p>30 June 2016</p>
<p>7 24/102</p>	<p>Rent Arrears</p> <p>Council house rent arrears are continuing to rise (increasing by 28% on 2013/14) and this may be further impacted by welfare reform.</p> <p>Risk</p> <p>The council is unable to prevent rent arrears from increasing, leading to a significant loss of income.</p> <p>Recommendation</p> <p>The council should ensure that it has taken action to identify and address the causes of increasing housing rent arrears.</p>	<p>Agreed.</p> <p>Work being undertaken to identify the causes for the increased arrears and these will be fully considered when reviewing the Council's Rent Collection and Arrears Prevention Procedures.</p>	<p>Team Leader – Revenues and Benefits</p>	<p>31 December 2016</p>