



REPORT

To: Special Audit and Scrutiny Committee

24 September 2009

From: Performance Management Co-ordinator

Report No: CE-41-F

Strategic Audit Risk Analysis – update report

1 Introduction

- 1.1 The purpose of this report is to provide Members with an update on progress that's been made in managing the key strategic risks outlined in the Strategic Audit Risk Analysis (SARA).

2 Link to Corporate Priorities

- 2.1 The Corporate Plan 2008-11 sets out a commitment to ensure that the Council is operating as efficiently and effectively as possible. Management of key strategic risks through the SARA is therefore an important element of this.

3 Background

- 3.1 Audit Scotland published their SARA report on the Shetland Islands Council in March 2009. This was considered at the Audit and Scrutiny Committee on 6th May and is attached to this report as Appendix 1.
- 3.2 During the discussion, Members decided that the issues being highlighted warranted further consideration with the Audit Manager at a separate meeting. It was also decided that all Council Members should be invited to attend.
- 3.3 Attempts were made to organise a special Audit and Scrutiny Committee meeting before the summer recess, but this proved impossible owing to other Member commitments. This is therefore the earliest opportunity to consider the report.

4 Update position

- 4.1 Since the report was released, work has been ongoing to deliver on the actions that were agreed in the SARA. Therefore, in order to accurately reflect the current position, an update report has been prepared and is attached as Appendix 2.
- 4.2 As can be seen from the traffic light system of reporting in Appendix 2, most items are progressing, with a number having been completed. Members are asked to take this into consideration in their discussions with Mr Ferris, Audit Manager.

5 Financial Implications

- 5.1 There are no financial implications arising from this report.

6 Policy and Delegated Authority

- 6.1 As outlined in Section 10 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

7 Conclusion

- 7.1 This short report introduces the Strategic Audit Risk Assessment that was published by Audit Scotland in March 2009 and the update position paper.

8 Recommendations

- 8.1 I recommend that the Committee notes the content of this report, taking into account the progress that's been made since April 2009.

Strategic Performance Monitoring Document – August 2009

PRF Area	Strategic Identified	Risk	Officer responsible	Management Action	Progress – August 2009	Issue identified in BV 2005 and 2007	Link to Corporate Plan 2008-11
Vision and strategic direction	The council need to ensure there is an overarching action plan that clearly links the single outcome agreement, the corporate plan, the community plan and the best value recommendations		Head of Organisational Development	The council is in the process of aligning monitoring arrangements in order to streamline reporting.	A report is to be presented to the Executive which aligns the monitoring arrangements for the SOA, Corporate Plan and Sustaining Shetland. Management monitoring of these documents is to take place on a quarterly cycle through the Executive.	<p>A lack of clear strategic plans with targets translating the broad vision of the council and its partners into practical programmes of action (2005)</p> <p>There remain concerns about the pace and extent of change. A number of initiatives are relatively recent and consequently they are not yet fully embedded and have yet to have an impact in terms of improved service delivery or outcomes (2007)</p>	None

	The council faces ongoing financial pressures, particularly from education and social care services and single status/equal pay	Chief Executive and Executive Team	<p>The council will continue to review budget allocations as part of the 2009/10 budget setting process and beyond.</p> <p>The head of finance will continue to monitor and report the financial position to full council on a quarterly basis</p>	<p>The Executive continues to review revenue management accounts on a monthly basis.</p> <p>Full Council is provided with a quarterly update on revenue management accounts.</p> <p>The Head of Finance reported to Full Council of the underspends in the current Council budget. Showing the Council to now “live within our means”.</p>	The council's inability over the previous three years to agree a balanced budget without significant recourse to its reserves, and the unsustainability of this approach (2005)	<p>Living within our means</p> <p>Ensure that services do not overspend their annual revenue budgets.</p> <p>Ensure that the Council's Medium-term Budget Strategy is adhered to, so that the draw on reserves to supplement General Fund revenue spending is ended by 2012/13</p>
	The council needs to ensure that capital projects are well managed and provide value for money	Head of Finance and Assistant Chief Executive	<p>The head of finance is to chair a senior officer multidisciplinary working group with the objective of setting out recommendations for best practice on the future management of capital projects</p> <p>Progress reports from the working group to be reported to the Audit & Scrutiny committee each meeting cycle.</p>	<p>A Finance Working Group has been established and has the review of the capital programme on its agenda. Limited progress has been made to date.</p> <p>Current restructure of Executive Services, to include the Head of Asset Strategy to adhere to the Strategic Plan and deal with procurement and the capital project. The new Head of Service will adhere to the draft 5-year plan.</p>	Planned activity not prioritised and matched to planned resources (2005)	Ensure that the Capital Programme continues to be managed, in line with available funds

	The council needs to appoint a suitably qualified candidate to the post of chief executive	Head of Organisational Development	A report was presented to council in February 2009 to commence the process for recruitment and selection of a new chief executive	Achieved		None
	Elected members need to address the difficult decisions to ensure that the council remain within current financial constraints	Chief Executive	<p>The council will continue to review budget allocations as part of the 2009/10 budget setting process.</p> <p>The council will prioritise the capital programme to reflect corporate aims and objectives.</p>	<p>Members required to update the Council's Financial Strategy in October, and set new year's revenue budgets and capital programme January / February 2010. Ad hoc "Difficult decisions" on spending feature regularly in Council meetings.</p> <p>Revenue budgets now at green. Capital budgets currently have a 5-year programme recommended and are awaiting decision from the Council.</p>	There is evidence of an improved corporate approach in many areas, led by the chief executive and the Executive Committee. However, many of the changes have been made only recently and have yet to become fully established (2007)	<p>Ensure that services do not overspend their annual revenue budgets.</p> <p>Ensure that the Council's Medium-term Budget Strategy is adhered to, so that the draw on reserves to supplement General Fund revenue spending is ended by 2012/13</p> <p>Ensure that the Capital Programme continues to be managed, in line with available funds</p>
Governance and accountability	The council should include both Shetland Development Trust and Shetland Charitable Trust within the group entity	Chief Executive	<p>The council has agreed to include the Shetland Development Trust in the council's group accounts in 2008/09.</p> <p>The chief executive has written to the general manager of SCT requesting the 2008/09 financial statements</p>	The Chief Executive does not agree that the Charitable Trust should be in the group entity, which is the view given to Audit Scotland	The council has made some improvements in its joint working arrangements with trusts, but there are still concerns about the clarity of lines of accountability between the council and trusts (2007)	None

	To ensure that members are fully aware of the implications of any potential conflict of interests, a formal training programme should be provided	Head of Organisational Development	The council will undertake a refresher exercise to identify any development needs for members. This will include involvement in arms length organisations.	HR has reviewed Members' training and are about to begin a refreshed Training Needs Analysis. The Head of Legal and Administration submitted a report to elected Members on Viking Energy conflicts on 15 th July.	None	
	The council should prepare an Annual Governance Statement to comply with best practice accounting requirements	Head of Finance	The council will prepare an annual governance statement for inclusion within the 2008/09 financial statements	A Savings Register has been established by the Executive and is monitored on a monthly basis. Annual Governance Statement tends to in the abstract of accounts.	None	Deliver 2% efficiency savings on General Fund revenue spending each year (approximately £2.3 million) and publish these in an annual Efficiency Statement
Performance management and improvement	The council must ensure that all SPI co-ordinators provide the reported figures within the agreed timescales together with the appropriate supporting documentation	Head of Organisational Development	All SPI co-ordinators will produce required information on time, to ensure that statutory deadline for sign off is met.	Achieved	A lack of evidence and systems to allow managers and councillors to systematically monitor performance across all areas of activity or identify areas of underperformance (2005) More work is needed to ensure that the council's arrangements are consistently implemented within	

					services, and to develop a corporate performance management culture (2007)	
Risk management	The council's risk management policy is out-of date and is currently being re-written	Head of Legal & Admin	The revised risk management policy will be presented to the Audit & Scrutiny Committee for approval on 6 May 2009.	Achieved	None	
	The council is in the process of reviewing and updating the strategic and departmental risk registers to reflect the council's eight priorities identified within the corporate plan and service-specific issues respectively	Head of Legal & Admin	Work is ongoing in both of these areas and it is anticipated that all Risk Registers will be updated and entered onto the database by September 2009. Review the council's updated risk registers	Safety & Risk section is collating updated risk registers across all service areas. On track to meet end of September deadline.	None	
	There is no process in place to allow the council to report identified risks to the community planning board	Head of Legal & Admin	The Safety and Risk Manager will liaise with the Community Planning Board/partner organisations to determine, and subsequently pull together, Risk Management arrangements across all partner agencies in keeping with the aim of the Single Outcome Agreement	No progress to date	None	

	There is no formal reporting process which ensures that risk identification, assessment and management are an integral part of the decision making process	Head of Legal & Admin	The Risk Management Board will consider introducing a new element to the Council's report template incorporating a 'Risk Management Implications' section which will require authors to detail upside and downside risk thereby leading to a more informed decision making process	No progress to date	None	
	There is little evidence of Business Continuity plans across council departments	Head of Legal & Admin	<p>The Council has contracted with an external provider to achieve an in-depth process to work with all Services to ensure BC plans are created, tested and kept up to date.</p> <p>These plans will be entered into the Risk Management database and will become a regular item on the Risk Management Board agenda</p>	All Service Plan authors attended training on BCM and have prepared BC Plans. A multi-agency exercise under the Shetland Emergency Planning Forum umbrella was conducted on 17th August 2009 where these plans were tested and amended as considered necessary.	None	

Use of resources - financial management	The council faces the challenge of budgeting for no increase in council tax for 2010/2011	Head of Finance	The council will monitor general fund expenditure to ensure that overspends are managed and financial targets are met	Ongoing. From the recent report submitted by the Head of Finance, it was shown that the Council are now underspending their reserves.	Despite some progress in approving a series of cuts in service budgets and prioritizing the use of capital funds, the council has still to show that its use of reserves is falling compared with previous years (2007)	
	The council should undertake a review of budget allocation to ensure that these are properly matched to service need. Specific risks have been identified with free personal and nursing care and school estate	Chief Executive / Head of Finance	The council will continue to review budget allocations as part of the 2009/10 budget setting process. The chief executive and Executive Management Team are due to meet with Heads of Services to identify where budget estimates can be reduced and make budgets more realistic	The budgets are currently underspent, as per the Head of Finance's report.		
	The capital programme is heavily over-subscribed, with a funding gap of £36.666 million identified to 2010/11. This is before the inclusion of Anderson High School at an estimated cost of £49 million. Current forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards	Assistant Chief Executive	The council will prioritise the capital programme to reflect corporate aims and objectives. Council officers will closely monitor the achievement of the capital programme and report areas of slippage to the council on a regular basis	A Finance Working Group has been established and has the review of the capital programme on its agenda. A proposed 5-year plan has been submitted for approval.	Some progress has been made in prioritising targets and matching them with resources in terms of capital projects. The council now needs to align its budget setting and service planning processes to ensure that there is a better match between resources and council priorities (2007)	Ensure that the Capital Programme continues to be managed, in line with available funds

	A revised capital prioritisation process was approved in September 2008 with the intention of replacing the existing points scoring system from 2009 onwards	Assistant Chief Executive	As a default position, the existing priority list will be used for programming in 2009/10 if the revised system is not fully operational	A proposed 5-year plan has been submitted for approval.	Some progress has been made in prioritising targets and matching them with resources in terms of capital projects (2007)	
	The charitable trust relies heavily on investment income to fund its current service provision. Given the current financial climate there is a risk that the trust cannot sustain its level of service provision going forward	Chief Executive	The trust will review its own position and response in respect of events in the investment market. The council will await any outcome of that process and then assess whether the council needs to respond in any way	This is no longer an issue for the Council.	None	None
	International financial reporting standards are to be introduced in 2010/11 and earlier	Head of Finance	The council will identify a lead officer within finance for IFRS implementation. Finance staff will be provided with training. Review the council's IFRS Arrangements	Pricewaterhousecoopers have been employed to train staff. They will meet shortly to discuss timetable.	None	None
	The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a consultation paper covering the "support for separate LGPS pension fund accounts" in December 2008	Head of Finance	The council will continue to monitor progress in this area and respond to changes as required. Monitor any changes in the pension fund account requirements.	This is continuing to be monitored	None	None

Use of resources – people management	The council has yet to implement single status, it is expected that this will be achieved in 2009. As a result the equal pay compensation liability will continue to rise throughout 2008/2009 and until single status is eventually introduced	Head of Organisational Development	The council is to progress the implementation of single status and equal pay agreements	Collective Agreement was reached on Single Status proposals in May 2009. Detailed work is now commencing on implementation.	None	Seek to ensure we are treating our employees equally and fairly by introducing a 'Single Status' Agreement, in consultation with our employees and Trade Unions
	As part of the single status implementation it is important that detailed training plans are provided to individual staff members	Head of Organisational Development	<p>The project team will ensure that training plans are formalised to support staff during the implementation of single status.</p> <p>A workforce development strategy which incorporates all aspects of job redesign is being developed by the end of March. A generic job family book and employee booklet have been developed</p>	Employee Development Strategy Phase 1 priorities have been agreed. These include: updating job profiles and person specs in line with job evaluation re-designs (now underway); conducting a Skills Audit/Training Needs Analysis to identify skills gaps and qualification requirements (to be completed by end Dec 2009); producing individual training plans for period up to end March 2012; a review of Career Grades linking progression to competencies (underway); and the development and implementation of an electronic corporate training records management system (a Project Team is now	The current appraisal system is basic and does not include, for example, specific performance targets for individuals (2005)	Meet our employees' training and development needs by ensuring that at least 80% of employees have a Personal Development Plan and are having regular reviews through the Employee Review and Development Policy by 2010

				taking this forward). Overlapping this is the ongoing development of an SIC Competencies Framework and further development of Job Family tools.		
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	The council needs to ensure that they target sickness levels within the respective service departments	Head of Organisational Development	<p>The council has introduced an upgraded payroll/HR system (CHRIS21. This has allowed human resources to review absence levels.</p> <p>The Promoting Attendance project will result in improvements in hot spot areas and will highlight further target areas</p>	<p>Work is continuing on the Promoting Attendance project. A LEAN event took place on 25th and 26th August to streamline sickness admin procedures.</p> <p>The Council's overall sickness rate has gone down.</p>	None	Reduce the employee sickness absence rate for the whole Council to less than 4.5%, thereby ensuring that the Council is ranked in the top 8 Councils in Scotland
Use of resources – asset management	The council has yet to consolidate the estates and maintenance records to help improve the availability of information on the council's asset base. Until this is in place, clear linkages with the corporate planning process cannot be made	Executive Director – Infrastructure Services / Head of Legal & Admin	Data relating to the Council's properties has been gathered from service areas. This data needs to be translated into an Estates Management Plan. The council has advised that due to staffing issues this is unlikely to be completed until March 2010	The Council is in the process of getting new Head of Asset Strategy.	None	Create a single Council Campus for services in Lerwick, to improve efficiency in the use of Council office space, starting with new headquarters for the Social Work and Housing services
	Financial pressures in the HRA have resulted in a deficit in 2007/08 which has to be met from the HRA reserves	Chief Executive / Executive Director – Education and Social Care	The council will monitor HRA expenditure to ensure that overspends are managed and financial targets are met	Continue to monitor	None	

	The council do not have a comprehensive system in place for measuring asset management performance	Head of Legal & Admin	Work is being undertaken to implement a Computer Aided Facilities Management System (CAFM), however, there has been slippage in consolidating the estates and maintenance records into a single database to improve the availability of information on the council's asset base	Implementation has been progressing. Interfaces into existing systems are available for testing now. All Autocad drawings for existing properties can be accessed through the system. Testing to be complete and go live by end of December 2009.	None	
Use of resources – procurement	Procurement policies need improvement. The council needs to generate efficiency savings through its recent membership to Scotland Excel	Assistant Chief Executive	The council will continue to work to further develop procurement policies in 2008/09. The council joined Scotland Excel in October 2008.	The Council is in the process of recruiting a new Head of Asset Strategy.	The Council does not have a corporate approach to procurement. This is currently being addressed. (2005)	Ensure that we are being as efficient as possible in the way we procure goods and services – delivering 10% savings on procurement budgets
Use of resources – information management	The council does not have an overarching information management strategy	Head of Organisational Development	The council will scope a corporate information Management project	Project being carried out on this, led by ICT Unit	None	
	There council need to update their security policy to recognise all relevant legislation relating to the use and processing of information systems	Head of Organisational Development		Updated Security Policy has been developed and is being implemented	None	

Service priorities and risks	Education and Social Care Services is the largest department within the council, accounting for over half the annual budget. The department has to cope with competing financial pressures between the two services, both of which are demand-led	Executive Director – Education & Community Care	The council will continue to review budget allocations as part of the 2009/10 budget setting process.	The Head of Finance confirmed in his report to full Council that the budgets were currently underspent.	None	
	<p>The council faces a number of difficult decisions in relation to the educational service within the current financial constraints.</p> <p>Sections of the public are against the closure of exiting schools. There is a risk that these decisions will be deferred with no conclusion reached. Officers play a vital part in ensuring that members have the capacity and knowledge to make these difficult decisions</p>	Executive Director – Education & Community Care	The council is committed to producing a model for education by 2009	The Schools Service has progressed the Blueprint for Education to the options appraisal stage. A STAG approach is being considered for taking this forward.	None	Ensure a model for education is developed by 2009 that considers the educational and financial viability for schools and communities and its outputs are then implemented

	<p>The council has acknowledged that delivery of care at home packages are currently close to saturation point.</p> <p>Over the next few years it is likely that demand will increase further for care at home services. The council therefore need to ensure that budgets and service priorities have been fully reviewed to ensure they address the changing service demands</p>	Executive Director – Education & Community Care	The council is aware that the delivery of care at home packages are at full capacity. The council is looking at a number of options to resolve this ongoing issue	<p>The redesign of Dementia and Homecare services has been completed. This report will make sure we can meet needs into the future</p> <p>A review of services for Long Term Care, young adults with physical disabilities and the Eric Gray Resource has also been completed.</p>	None	<p>Complete a redesign of Dementia and Homecare services to make sure we can meet needs into the future.</p> <p>Complete a review of services for Long Term Care, young adults with physical disabilities and the Eric Gray Resource Centre.</p> <p>Complete strategies for Long Term Mental Health and Joint Respite Care.</p> <p>Complete feasibility studies or necessary capital works, including Viewforth and Isleshavn Care Centres</p>
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SHETLAND ISLANDS COUNCIL

Strategic Audit Risk Analysis 2008/09

March 2009



 AUDIT SCOTLAND

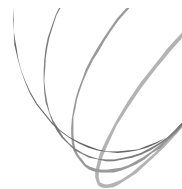


SHETLAND ISLANDS COUNCIL

Strategic Audit Risk Analysis 2008/09

Contents

Key messages	1
Introduction	3
Shetland Islands Council's strategic risk analysis 2008/09 – 2010/11	5
Vision and Strategic Direction	5
Partnership working and community leadership / engagement	7
Governance and accountability	9
Performance management and improvement	11
Risk Management	12
Financial Management	14
People management	19
Asset management	21
Procurement	22
Information Management	23
Service priorities and risks	25
Strategic risk plan	31
Appendix A	32



Key messages

This report sets out the findings from our review of the strategic risks facing Shetland Islands Council. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identify areas for ongoing review in future years.

The local government environment within Scotland continues to evolve. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs). The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.

Services delivered directly, or in partnership with others, involve substantial resources. There are significant pressures on finances which necessitate an even greater emphasis on efficiency and the effective use of resources.

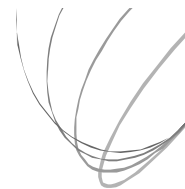
The major priorities and risks for the council to address identified within our analysis include:

- establishing an overarching action plan that clearly links the single outcome agreement, the corporate plan, the community plan and the best value recommendations
- inclusion of the Shetland Charitable Trust within the group entity
- reviewing budget allocation to ensure these are matched to service need due to the ongoing financial pressures, particularly from education and social care services and single status/equal pay
- elected members need to address the difficult decisions in the short and medium term to ensure that the council remain within current financial constraints
- implementing single status from April 2009. Until this is achieved equal pay compensation liability will continue to rise
- developing procurement policies to generate additional efficiency savings through its membership of Scotland Excel
- identifying how the capital programme funding gap of £36.666 million in 2010/11 is to be met. This is before the inclusion of Anderson High School at an estimated cost of £49 million
- ensuring that capital projects are well managed and provide value for money
- the charitable trust relies heavily on investment income. Given the current financial climate the trust may not be able to sustain its level of service provision and services will transfer back to the council
- reviewing and updating the strategic and departmental risk registers to reflect the council's eight priorities
- there is no formal process to ensure risk identification, assessment and management are an integral part of the decision making process
- developing an overarching information management strategy.



The priorities and risks we have identified present significant challenges and we have confirmed the council has action plans in place to address many of the risks identified. In these areas we will monitor progress and report any significant matters on an exception basis.

Where relevant, any significant findings from our work on the council's management of key risks will also be summarised in our annual report on the audit.



Introduction

Overview

1. The local government environment within Scotland has continued to evolve since we issued the last Priorities and Risk Framework document in 2007. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs) between all thirty two councils and the Government by June 2008. The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.
2. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an aging population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.
3. The overall context for local government, therefore, is continuing change, with increasing pressures on services. The new councils face difficult choices in deciding which service options to deliver and how to allocate limited resources.

2008/09 Priorities and Risks Framework

4. The PRF is a national tool used by auditors to plan the risk-based audits of local authorities in Scotland. It identifies the key national priorities facing councils and the main risks to their achievement. This helps to ensure that audit work takes account of sector specific national priorities and risks. For 2008/09 - 2010/11 the key national priorities are:

Vision and strategic direction	Financial management
Partnership working and community leadership/ engagement	People management
Governance and accountability	Asset management
Performance management and improvement	Procurement
Risk management	Information management
	Service priorities and risks

5. There are also a number of cross cutting issues that are important elements of the overall audit approach, including equality and diversity and sustainability. The 2008/09 PRF is available from Audit Scotland's website (http://www.audit-scotland.gov.uk/docs/local/2008/prf_0809_localgov.pdf)
6. Auditors discuss the risks contained in the PRF with councils and the national view is combined with the auditor's understanding of the key priorities and risks operating at the local level. This overall assessment of risk informs the auditor's decisions on where to target audit resources. This approach helps meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment.



7. As many of the risks included in this report are high level and strategic in nature, they will continue to be relevant to the council for a number of years. Therefore, although our analysis will be updated annually, many risks will remain from year-to-year and the risk analysis will cover a rolling three year period.
8. This report complements the work carried out by us in other areas such as the audit of the financial statements, the approach to which was reported in our Annual Audit Plan.
9. The management of the council is responsible for implementing appropriate internal control systems including risk management processes. Communication by auditors of matters arising from the audit or of weaknesses does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.
10. The risks outlined are only those which have come to our attention during the course of our normal audit work in accordance with the Code of Audit Practice and are not necessarily, therefore, all of the risks which may exist.
11. Risk exists in all organisations that are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.
12. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation received during the course of our work is gratefully acknowledged.

Links with the audit of Best Value

13. In November 2008, the Scottish Government announced a series of proposed reforms to the scrutiny landscape in response to the Crerar report. Audit Scotland on behalf of the Accounts Commission is developing a shared approach to risk assessment and planning to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.
14. As part of a more integrated approach to scrutiny we are developing an overarching corporate assessment framework which reflects our theory of improvement that: Effective leadership, good governance and sound management are necessary conditions for the delivery of sustainable continuous improvement and effective outcomes. The corporate assessment framework will be used as a primary component of our revised approach to the audit of best value and will also be reflected in the Priorities and Risk Framework (PRF) process and our audit planning.
15. Outputs gathered through the application of the PRF; other intelligence such as Best Value findings and follow-up work; the views and risk assessments of inspectorates; self assessments and other performance analysis are playing a key part in ensuring that the second round of Best Value audits (BV2) is proportionate and reflects the national context and local circumstances. The PRF process is making an important contribution to streamlined scrutiny.



Shetland Islands Council's strategic risk analysis 2008/09 – 2010/11

Structure of the analysis

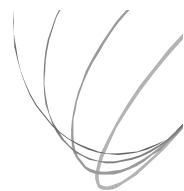
16. As part of a more integrated approach to scrutiny, we have reported the results from this analysis using this year's PRF headings, which will also be used to develop the corporate assessment for Best Value 2 (BV2).

Vision and Strategic Direction

17. Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community. Member and officer leadership of the council are responsible for promoting this vision effectively and ensuring its achievement. The overall aims should be backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery.
18. The strategic direction of the council will be supported through open and inclusive leadership and a culture where the process for prioritising council activity is open and fair. The council should demonstrate that it maintains its focus on core priorities and is not distracted by minor operational matters.

Aims and Objectives

19. A new corporate plan for 2008-11 was approved by the council on 19 March 2008. This is the key mechanism for driving improvement and change and sets out the council's priority areas for the next three years. Its principal aim is to ensure that what the council intends to do will contribute to improving Shetland's sustainability. The plan is structured to reflect three themes: a sustainable economy; a sustainable society; and a sustainable environment and transport.
20. A total of 8 targets and priorities were developed by the Community Planning Board (CPB) as a way of setting some long-term aspirations for Shetland. The council, as a lead member, agreed to help achieve and support these aspirations and these targets and priorities are included within the council's corporate plan. The targets and priorities are aligned with the national outcomes set out in the Scottish Government's 'Concordat'.
21. The council accepted the concordat at a meeting in February 2008. Central to this is the single outcome agreement (SOA) between each council and the Scottish Government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments in the corporate plan. In this way progress at a national level is supported by outcomes at a local level. It is important that the council develops robust governance arrangements for the development and monitoring performance against this key document.



Competing Demands and Financial Pressures

22. Education and Social Care Services is the largest department within the council, accounting for over half of the annual budget. The department has to cope with the competing financial pressures of two demand led services to ensure required service provision can be achieved. In addition the council face significant financial pressures as a result of single status and equal pay. Elected members face a number of difficult decisions to ensure the council remain within their current financial strategy.
23. For the council to maintain its reserves at £250 million, whilst ensuring sustainability and quality of services, a comprehensive policy led approach to budgeting is required. This would demonstrate which of the council's objectives could be delivered within the resources available each year. It would provide the information needed to prioritise its objectives if reserves were at risk of falling below the target level in the longer term. Although there has been some improvement in the council's budget setting processes, there continues to be a risk that budgets are incremental and budget savings are identified by top slicing without a review of overall priorities and spending needs.

Political and Managerial Leadership

24. Officers play a vital part in ensuring that members have the capacity and knowledge to facilitate the decision making process. In January 2009 the chief executive announced his resignation and will leave his post in May 2009. A report was presented to the council on 18 February 2009 to seek approval for the process and indicative costs involved in the appointment of a new chief executive.
25. There are currently 22 independent councillors, often with different political views, representing the people of Shetland. Elected members need to ensure that the council fulfils its statutory duty to secure best value, taking decisions on service delivery on the basis of evidence and performance. As elected representatives, councillors have a clear legitimacy to be the voice for their area, both individually at ward level and collectively to advance its well-being. Ultimately they are responsible and democratically accountable to the local electorate for the overall performance of the council. Councillors have yet to demonstrate they are able to collectively take the difficult decisions required to reduce the current draw on reserves in line with the agreed financial strategy. There is a risk elected members do not address the difficult financial choices required to ensure continued service delivery and progress on the capital programme within the agreed financial strategy. This may result in the council not delivering its corporate plan.
26. By way of example, in October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects within the council. This highlighted that unclear project briefs and delays in approving capital projects have resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an earlier stage.
27. In his report to the audit and scrutiny committee in November 2008, the head of finance noted that members must be fully involved in all the key decision making stages, including policy formulation, project definition, project planning, project implementation, project monitoring and review. At each key stage there should be a clear budget setting decision point at which resource allocation and resource constraints are clearly determined, in the full light of the implication of those decisions for other projects and priorities.



28. Going forward members should recognised that changing course after a project is substantially under way is a costly thing to do, and must only be considered when there is a compelling evidence-based case for making such a change.
29. The head of finance also noted that aspirations and constraints are un-reconciled and members have dispensed with attempts by officers to provide objective advice (by way of a points scoring mechanism) as to the relative priority of different projects. So far Committees have been asked to prioritise their projects, and some progress has been made on that, but the most difficult stage will be at full council, where relative priorities and resource allocations will have to be decided, and the process for successfully achieving that is as yet unclear.

Immediate priorities and risks

- ensuring there is a detailed action plan in place that clearly links the SOA, the corporate plan, the community plan and the BV recommendations
- ongoing financial pressures, particularly from education and social care services and single status/equal pay
- ensuring capital projects are well managed and provide value for money
- appointing a suitably qualified chief executive to take forward the challenges currently facing the council.

Longer term considerations

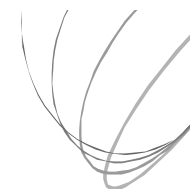
- elected members need to address the difficult decisions in the short ,medium and long term to ensure that the council remain within current financial constraints.

Partnership working and community leadership / engagement

30. Council duties under the Local Government in Scotland Act 2003 are to initiate, facilitate and maintain a community planning process, ensuring effective leadership within local community planning partnerships. Councils work with a range of other agencies and groups and many council services are planned and delivered in partnership with other public, private and voluntary organisations. These partnerships are of particular importance in tackling complex or cross-cutting issues.
31. Audit Scotland's baseline study on community planning, Community planning: an initial review, June 2006, identifies the challenges then facing community planning partnerships (CPPs). It makes recommendations for action by councils, partner organisations and CPPs themselves. Many of these challenges remain and councils should be utilising the evaluation framework within the report, along with other improvement tools, to improve the effectiveness of partnerships.

Leadership

32. Due to the relative size of the council compared to partnership bodies they are able to direct partnership working from many of the local agencies. The two largest local trusts, the Shetland Charitable Trust and the Shetland Development Trust, are aligned with the council's aims and there are strong partnership arrangements in place.



Sharing information

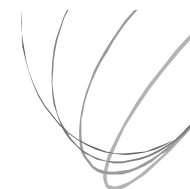
33. The council established a data share website in 2004 to enable the effective sharing of information. The site had public access and all community planning partners were able to upload relevant documentation and information. Unfortunately the site has experienced some operational difficulties and has been offline for a few months. The council are currently in the process of assessing the data share website to make it operational again. In the meantime the information sharing arrangements with partners has been ad hoc; however the community planning partners have built up strong relationships and keep in regular contact.

Governance & Accountability

34. The community plan has been endorsed by the council and was formally adopted by all partners in 2006. It contains clear priorities and explicit targets which are to be achieved by the council and its partners. Sustaining Shetland is a monitoring mechanism for a set of indicators of the quality of life in Shetland. It is regularly monitored and annual reports are presented to the community planning board and the council with the most recent report being presented on 3 December 2008. This demonstrates the council has sound arrangements in place for monitoring and assessing the agreed outcomes.
35. In March 2008 members of the community planning board (CPB) discussed and agreed proposals for restructuring. The CPB has been replaced with a community planning partnership (CPP) which includes membership from council members, NHS board members, Shetland Charitable Trustees, Police and Fire boards, ASCC executive, strategic group chairs and the councils executive management team. The CPP meets twice yearly as the strategic discussion forum for community planning issues. An annual summit was held in October 2008 focusing on the population and migration study data and was attended by representative from each CPP.
36. A community planning delivery (CPDG) group has also been established consisting of senior management and members from local community planning partners. The purpose of the group is to provide leadership and facilitation to community planning in Shetland, through the adoption and overall monitoring of arrangements. The group assigned 'champions' to take forward each of the six national outcome areas from the SOA. The champions have prepared position statements outlining what they hope to achieve in the next 12 months and highlighting potential problem areas along with potential solutions. The position statements were presented to the annual summit of the community planning partnership in October. The structure of the CPDG ensures focus on the delivery of the SOA.

Planning and implementing priorities and actions

37. The corporate plan demonstrates that the council is committed to delivering on the outcomes set out in the Scottish Government's 'Concordat'. However as noted previously the targets within the plan were developed by the CPB to ensure they also reflected the local priorities of the Shetland community. The targets and priorities contained within the corporate plan are aligned with those from the SOA. To underpin the alignment of community plan outcomes and national outcomes the council need to ensure there is a detailed action plan in place that clearly links the SOA, the corporate plan, the community plan and the BV recommendations.



Community engagement

38. 'Your Voice' is Shetland's twice yearly citizens' panel which was established in 2004 and consists of 600 people, representative of the Shetland population. The survey results provide statistical and qualitative data which feed into the process of planning and delivering services. The council are currently looking to refresh the panel and are considering alternative methods of collecting the data to improve the response rate and ensure it is efficient.
39. Industry panels have been established to engage with local business on their service needs and local service delivery groups have been created regionally to service delivery arrangements.

Immediate priorities and risks

- ensuring there is a detailed action plan in place that clearly links the community plan, the SOA, the corporate plan and the BV recommendations.

Governance and accountability

40. Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local authorities operate is based on sound decision-making and an effective support process.
41. CIPFA/SOLACE's 'Delivering Good Governance in Local Government Framework' and an accompanying guidance note for Scottish authorities were published in 2008. The guidance includes a self-assessment framework.
42. Increasingly councils are working with companies, trusts and other external organisations to deliver a range of services such as leisure, and other services which provide social benefit. The Code and the Accounts Commission's 'Following the Public Pound' national performance report (published in March 2004) underlines the need for good governance and clear accountabilities. Where councils set up or engage external organisations to deliver services and decide that elected members are to sit on boards of companies or trusts, councils must ensure that those members are properly supported and are clear about their roles and responsibilities.

The role and development of elected members

43. The council issued a comprehensive induction pack to all new members following the May 2007 elections which included a self-assessment analysis to inform training needs, and identify areas of expertise.
44. Since the election a number of training courses have been delivered as part of the programme to support new members. These include local government finance, financial management and monitoring, local government and the wider world and performance management for elected members. In general these courses have been well attended.
45. While there is no formal mechanism in place to monitor the impact of the training, a review with members was planned prior to Christmas 2008 to gather qualitative data from members on how well they feel the training and development programme has met their needs.



46. There are currently no personal development plans in place, however, it is intended that a refresher exercise will be undertaken to identify members' personal training needs 18 months after the elections. A refresher training exercise for the audit and scrutiny committee will be undertaken in 2009.

Support available to elected members

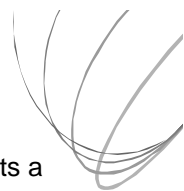
47. Effective scrutiny is central to good governance. Members play a significant role in scrutinising performance, holding management to account on service delivery and supporting the reform and modernisation agenda. The scrutiny committee was established in November 2005 with the committee's remit expanded in March 2007 to include the audit function.
48. Training was provided by CIPFA for all audit and scrutiny committee members in August 2007. In June 2008 an activity report was presented to the audit and scrutiny committee. As well as reviewing activity over the previous year the report also considered how its effectiveness could be enhanced in light of feedback gathered from members and officers.
49. The information provided to members details the financial implications of any recommendations and a range of officer and member groups have been established to support the decision making process.

Working with external organisations

50. Elected members represent the council on a number of arms length organisations, with potential for conflicts of interest. A review of member involvement in arms length organisations has been undertaken through the legal and administration service. The main aim was to identify the bodies that actually require member involvement in their organisation.
51. Where it is decided that continued involvement in arms length organisations is warranted, the council should pursue dispensations as appropriate, to maximise the capacity of members to engage in any necessary representative role without compromising obligations under the Councillors Code of Conduct. The council must ensure that members are clear of their responsibilities in these organisations and avoid any potential conflict of interest.
52. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006 which means that a full set of financial statements is expected for each trust fund. The date of full implementation is 2010/11.
53. The committee services team raise members' awareness of the potential for conflict. The committee services manager e-mails each member monthly to update their register of interest and the members' declaration of interests is now included on the agenda at every committee meeting.

Relationship with the Shetland Development Trust (SDT) and the Shetland Charitable Trust (SCT)

54. For the third year the financial statements of the council for 2007/08 contained a qualified audit opinion. The 2007 SORP required group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position. In 2007/08 the qualified opinion reflected the fact that the council's group accounts did not include the Shetland Development Trust (SDT) and the Shetland Charitable Trust (SCT), and their related



subsidiaries. In our opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission resulted in a material mis-statement of the group accounts.

55. In response to the qualified audit opinion, a report by the Controller of Audit to the Accounts Commission under section 102 (1) of the Local Government (Scotland) Act 1973 was issued in December 2008. The Accounts Commission's response to this report was as follows:

"The Commission notes with great concern that for the third consecutive year the Council has received a qualified audit opinion, as the auditors have determined that the substance of the Council's relationship with the Shetland Development Trust and the Shetland Charitable Trust represents a significant interest and that, accordingly, their omission from the Council's group accounts results in a material mis-statement of those accounts. The Commission expects the Council to take all appropriate action without further delay to resolve this situation during the 2008/09 financial year."

56. In January 2008 a revised structure for the SDT was proposed by the chief executive. In March 2008 the SDT was directly placed within the council's governance structures and the council has stated that the results of the SDT will be included in the group accounts for 2008/09.
57. In February 2009 a report by the chief executive was presented to full council in respect of the statutory report referred to at paragraph 55 above. The chief executive reported his intention to communicate the council's requirements once more to the SCT with the intention of acquiring the required information such that the council can comply with the Accounts Commission's findings. The report recommended that the council endorse the action of the chief executive to enable the council to include the accounts of the SCT within the group entity of the council. This was fully endorsed by the council. However there remains a risk that the SCT do not provide their financial statements for inclusion within the group financial statements of the council.

Annual governance statement

58. A recent development has been a change in the available good practice guidance with the introduction of 'Delivering Good Governance in Local Government.' The new guidance recommends the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. The council should consider preparing an Annual Governance Statement to comply with best practice accounting requirements.

Immediate priorities and risks

- inclusion of the SDT and SCT within the group entity
- ensuring members are aware of any potential conflict of interests and how to deal with them, by providing a formal training programme
- preparing an Annual Governance Statement to comply with best practice requirements.

Performance management and improvement

59. Good governance and the achievement of Best Value rely on having good information on which to base decisions about allocating resources to competing demands, improving service delivery and managing performance. Effective performance management at both service and corporate levels is essential to



achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate they are improving, offer value for money, are competitive and are of high quality.

Performance indicators

60. One of the ways of measuring council performance is through the Statutory Performance Indicators (SPIs). In 2007/08, a total of 57 SPIs were reported and published by 30 September 2008 on the council website and submitted to the council's audit and scrutiny committee. The committee will consider how performance can be further improved.
61. Each year we review the reliability of the council's arrangements to prepare SPIs. We are pleased to conclude that all of the 2007/08 SPIs reported were considered to be reliable. However the quality and timeliness of the supporting working papers varied and we will continue to work with the council to improve the overall arrangements.

Performance reporting

62. The annual public performance report is in the form of a calendar and is distributed to council offices and public buildings where members of the public can obtain copies. Information is easily obtainable, indicates both good performance and areas where improvement is required, and shows recognisable outcomes and targets. It is forward looking detailing developments the council is planning in the future.

Involving users

63. The 2008/09 service plans have a section which outlines any recent or future consultation and engagement with customers. This enables services to build up an understanding of customers' needs, what they expect and how services can be improved. Specific examples of engagement include; satisfaction surveys, informal meetings, public meetings, suggestion boxes, regular contact with community councils and feedback via websites.

Immediate priorities and risks

- ensuring all SPI co-ordinators provide the reported figures within the agreed timescales together with the appropriate supporting documentation.

Risk Management

64. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.

Policy, strategy and procedures

65. To reflect the development of risk management within the council, the risk management policy is currently being re-written and will be presented to the Audit Committee for approval on 6 May 2009.



66. As part of the overall risk management effort the council has recently introduced risk health checks for service departments by working with the manager and staff to identify key areas of risk. Following this an action plan is developed containing sustainable solutions for implementation, with the fundamental aim of minimising the level of risk to a manageable degree.
67. Specific risk management training has not been provided. Training packages are organised and delivered on an ad hoc basis to address specific risk management issues. Although a training course for managers and elected members has been developed, the council are still considering whether this should be incorporated and delivered within a planned training programme.

Corporate, departmental and partnership risk management

68. The Risk Management Board is responsible through the Executive Management Team for monitoring and directing the control of strategic and corporate risks. The council's strategic risk register focuses on those areas of risk that can disrupt the strategic planning of the council and/or would have a long-term impact on the Shetland community. The board is currently in the process of reviewing the strategic risk register. The initial deadline for the review has now passed due to resource issues and a revised timescale for completion is yet to be established.
69. The departmental risk registers address service-specific and/or corporate operational risks. Whilst the corporate operational risks are referred to the risk management board, departmental risks are addressed through safety and risk services working with the service concerned.
70. Where departmental risk registers identify issues which impact on a corporate theme the risks are escalated to ensure they are appropriately mitigated. An example of this is stress related risks which feature in a number of departmental risk registers.
71. There is no formal process in place for reviewing key partners risk management arrangements or established risk registers although the safety and risk manager is aware risk registers are in place for some partners, e.g. Shetland Charitable Trust.
72. The council's risk management arrangements will be updated to align corporate and community risks alongside the SOA arrangements. Community planning partners will be invited to share and participate in those activities. However there is no process to report identified risks to the CPB which would strengthen arrangements.
73. There are a range of techniques that can be applied to ensure that risk assessment and management is embedded within the decision making process. While the council has committed resources to the development of risk management arrangements there is no formal process which ensures that risk identification, assessment and management are an integral part of the decision making process.

Integration with corporate processes

74. Within the council, safety and risk services provides a corporate approach to the management of risk across all services, both at strategic and operational levels. Each year a service plan is produced to identify the required resources, analyse and plan for future requirements, monitor service delivery and provide an action plan for service improvements.



75. The council needs to ensure that it effectively links risk management with other corporate processes such as financial management. There are a number of potential financial risks facing the council in the short to medium term such as the: sustainability of the future capital programme, ongoing pressures on the revenue budget and potential fall in investment income in the current economic climate.

Business Continuity Management

76. The council has contracted with an external provider to achieve an in-depth process to ensure business continuity plans are created, tested and kept up to date. The methodology incorporates the relevant British Standards and builds on the understanding of business continuity across services so future management will be internalised. These plans will be entered into the risk management database and will become a regular item on the risk management board agenda.

Immediate priorities and risks

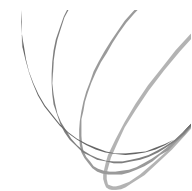
- the council's risk management policy is out-of date and is currently being re-written
- reviewing and updating the strategic and departmental risk registers to reflect the council's eight priorities identified within the corporate plan and service-specific issues respectively
- ensuring that risk identification, assessment and management are an integral part of the decision making process
- there is no process for the council to report identified risks to the CPB.

Longer term considerations

- there is little evidence of business continuity plans in place across council departments.

Financial Management

77. Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Financial management is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities. Because of challenging constraints on resources, councils must make increasingly difficult decisions to balance demands for improvements in both the volume of services delivered and in the performance of those services.
78. Councils are reporting significant financial pressures in 2008-09 and beyond, including; equal pay and single status, waste initiatives (working towards meeting the EC Landfill Directive, recycling targets and refuse collection), education pressures (including reducing class sizes, free school meals and increasing the quality of school estates), increases in costs above inflation in significant areas e.g. energy and increasing demands and pressures in relation to social care services.
79. There have been a number of events in the global economy and banking system in 2008 that will have significant medium and long term implications for councils. Challenging economic conditions may lead to tighter government funding as the economy slows down, higher demand for certain services as unemployment rises and declining revenues from commercial or charging activities as demand falls.

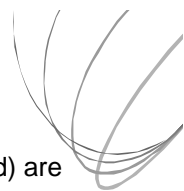


Budgets and budgetary control

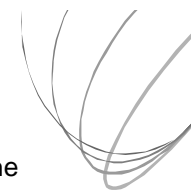
80. The council aim to reduce and then maintain the general fund reserves (excluding the earmarked elements) to a minimum threshold of £250 million by 2016. The council's view is this level of reserves will minimise the risk that the council will be unable to fund future capital expenditure on infrastructure development and remain debt free. The council will need to closely monitor both capital and revenue expenditure to ensure financial targets and the reserves strategy are met.
81. During the current financial year separate reports have been made to the council on energy costs where there have been significant rises in the prices for electricity and fuel (approximately £1.5m for a full year). Measures are being put in place to minimise the impact and contain this within existing budgets.
82. The revenue management accounts are presented to Executive Management Team (EMT) on a monthly basis to enable EMT to monitor the council's overall financial position. Monitoring reports are also presented to the council on a quarterly basis to enable members to review the council's financial position.
83. Despite the overall financial pressures, a pattern of under-spending of a number of approved budgets has emerged in recent years, with evidence that this pattern is continuing into 2008/09. In October 2008, the head of finance reported that spending on the general fund for the first 5 months of 2008/09 (including support and recharges) is £3.023m under budget. This is after savings of £1.312m have been taken into account. This is in part due to the number of unfilled vacancies within the council. The education and social care department has been significantly understaffed with approximately 50% of their underspend in respect of employee costs. The majority of vacancies have now been filled which should result in actual spend more closely matching the budget allocation in 2009/10.
84. Despite the pattern of under-spending in recent years, the initial estimates for the 2009/10 budget setting exercise exceeded the planned contribution from reserves. The chief executive and Executive Management Team met with Heads of Service to identify where budget estimates could be reduced and be made more realistic. As a result of these discussions, the 2009/10 budget was set in February 2009 with a proposed transfer from the general fund of £3 million. This is in line with the council's current financial strategy.
85. Although there has been some improvement in the council's budget setting processes, there continues to be a risk that budgets are incremental and budget savings are identified by top slicing without a review of overall priorities and spending needs of the council.

Long term planning

86. The local government sector faces a tight financial situation in the period 2008/09 to 2010/11 including a requirement to freeze council tax levels, develop asset management and continue to deliver efficiency savings. The council's financial strategy is to reduce the demand upon reserves year on year so that by 2012/13 there will be no general fund deficit to be met from reserves. It will be challenging for the council to deliver a medium term financial and efficiency strategy that achieves balanced budgets while maintaining effective service delivery.



87. Currently the discretionary reserves (Reserve Fund, Capital Fund and Repairs and Renewals Fund) are used to finance any in year deficits on the general fund, to finance the capital programme and to provide funding for the reserve fund planned programme of work.
88. The head of finance reported on the implications of the council's financial circumstances on the discretionary reserves in September 2008. These findings were used to give direction to the budget exercise for the financial year 2009/10. The report concluded that:
- the council's £250 million reserve floor policy should be reaffirmed, to provide sustainable future funding for the general fund capital programme and the reserve fund programmes
 - a 2009/10 target be set to restrict the use of the reserves to £30.700 million (£3 million to meet the general fund deficit, £7.700 million to meet the reserve fund programme expenditure and £20 million for the capital programme).
89. The current strategy for the general fund capital programme is to limit the draw on reserves to £20 million per annum, for as long as that can be sustainably supported. Council forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards.
90. The council has reported that its capital programme includes projects of £112.491 million to be completed or commenced beyond 2009/10 - 2013/14. As part of this programme, expenditure required to complete projects scheduled for 2009/10 and 2010/11 totals £69.866 million (this excludes the revised estimated costs of £49 million for the Anderson High School Project). However the available funding identified is only £33.200 million, resulting in a funding gap of £36.666 million. The capital programme is therefore heavily oversubscribed and there is a risk of slippage or that projects may not be delivered and corporate priorities not achieved.
91. In response to the identification of the funding gap, in September 2008 a report was presented to council which outlined a revised process to the prioritisation of the capital programme. This followed a call by members for the existing point system to be removed and replaced with a system that allows each committee to decide priorities. This proposed process places a responsibility on all Boards and Committees to liaise with the relevant services to identify projects in advance and in good time. The council need to ensure that the revised methodology is robust and transparent to ensure best value is achieved and the long term financial strategy is met.
92. In June 2008 Audit Scotland published a report, Review of major capital projects in Scotland – How Government Works. This report highlighted that the scale of capital expenditure and its importance in supporting the delivery of public services, puts a premium on ensuring capital projects are well managed and provide value for money. To achieve this, a strategic approach to managing the programme of capital projects is required.
93. As noted above the head of finance presented a report on capital project management in October 2008. There have been two further reports presented to the audit and scrutiny committee on this subject matter. The report on 19 November 2008 considered the best way forward in addressing the issues arising from the initial report. This resulted in the head of finance being appointed to chair a senior officer-working group to report back on best practice.



94. On 4 February 2009 a first progress report was presented to the audit and scrutiny committee. The working group acknowledged that there was a lot of combined knowledge on what constituted good capital project management. However it was the fragmentation of knowledge, experience and inconsistency of approach to capital projects that were the most prominent cause of past difficulties. The working group now face the challenge of condensing the knowledge and material into a single best practice council manual for application across all council capital projects.
95. The intention is now to convene a special audit and scrutiny committee meeting which will invite a number of senior officers and councillors to discuss the findings of this report. Any future discussions should consider the recommendations of the Audit Scotland report to ensure a strategic approach to managing the programme of capital projects is developed.

National influences

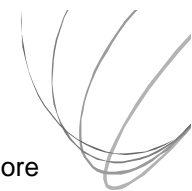
96. As a result of the events in the global economy and banking system noted above, in recent months the value of investments has fallen significantly. External investments held with fund managers are reflected in the financial statements at a value of £257.266 million for the single entity accounts and £180.800 million for the pension fund. An estimate of the effect of the fall in investment values cannot reasonably be made due to the ongoing volatility within the markets. As noted earlier the council set their 2009/10 budget in line with their current financial strategy. Going forward the council will need to monitor its medium to long term strategy to ensure affordability in the current financial climate.

Joint working

97. As noted above the SCT, the largest trust is closely aligned with the council's aims and there are strong partnership arrangements in place. The SCT is predominantly a strategic funding body. For the most part, it grant aids individuals, community groups and special purpose charities to deliver a range of services for the community. The services are funded mainly from income received on the trust's investments. Given the current financial climate there is a significant risk that the trust may no longer be able to provide the same level of services in the future. The council may have to consider whether it will provide funding to the trust, or whether services will need to be transferred back under the council's control. If this is required, the council will need to review its future spending plans.

Financial Governance

98. In November 2007 the EU Commission issued its decisions on three of the council's schemes, namely 'First Time Shareholders', 'Fishing Vessel Modernisation' and 'Fish Factory Improvement'. These decisions were all negative and required a full repayment to the council of grants paid plus compound interest added from the date of payment. The Commission has addressed its decision to the UK Government and the council is obliged to recover the monies from the beneficiaries within 4 months of the decision although the council have appealed against this ruling. The 'Fishing Vessel Modernisation' scheme has now concluded with no recovery being required following an agreed application of de-minimus regulation retrospectively. Discussions are on going regarding a similar approach on applicability of that approach to the 'First Time Shareholders' scheme. Recovery has been put in place for 'Fish Factory Improvement' scheme and the council is still progressing its appeals through the European Court of First Instance regarding two of the three cases.



99. To avoid future state aid problems, it is important that all staff understand the principles and the more routine practices of awarding financial assistance under the state aid regulations. The council has recognised this and the head of business development presented a report to council in September 2008. It was recommended and accepted that a state aid manual should be issued to all staff engaged in providing financial assistance for economic activities. The manual is now available to staff and emphasises the methods that can be used to advance projects within the state aid framework.

Introduction of international financial reporting standards

100. The introduction of IFRS to the local government is expected in 2010/11, although elements of this, for example PFI accounting and completion of whole of government accounts, could be introduced earlier. Audit Scotland's recent experience in other sectors indicates that implementation has been problematic. The council should identify a lead officer within finance for IFRS implementation and identify its plan for introducing key elements. This will include increasing awareness and training, establishing a corporate record of untaken leave and flexitime and examining the impact on lease accounting.

LASAAC proposals on pension fund accounting and audit

101. The Local Authority (Scotland) Accounts Advisory Committee issued a consultation paper covering the "support for separate LGPS pension fund accounts" in December 2008. This consultation was prompted by a requirement introduced in England and Wales for local authorities to produce a 'pension fund annual report' in 2008/09. The development of separate pension fund reporting and possibly audit arrangements could lead to changes in existing arrangements that will need to be considered and managed by the council.

Training

102. Key finance staff have attended CIPFA technical updates in the past, however, in the current financial climate, this approach is not considered to be favourable. Each member of staff is therefore responsible for keeping up to date with technical requirements as new guidance is released. However, the council need to ensure that finance staff receive ongoing training and technical updates. Without the provision of staff training there is a risk that the financial statements do not properly address the key changes in the Statement of Recommended Practice (SORP).
103. A number of training sessions have been provided throughout the year for budget responsible officers. Courses include, CIPFA – Introduction to Local Government Finance, Logotech – Asset Management Training and in-house ICT training. A training log has been maintained by the department detailing the attendance at each of the courses.

Immediate priorities and risks

- the challenge of budgeting for no increase in council tax for 2010/2011
- the council should undertake a review of budget allocation to ensure these are properly matched to service need
- reviewing the current capital programme as it is heavily over-subscribed, with a funding gap of £36.666 million identified to 2010/11, before the inclusion of Anderson High School (£49 million)
- ensuring that the revised capital programme prioritisation process is robust and transparent

- producing a council manual on capital projects to ensure they are well managed and provide value for money
- preparing systems and developing staff for the introduction of IFRS.

Longer term considerations

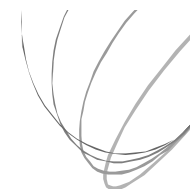
- there is a risk that the trust cannot sustain its level of service provision going forward and the council will have to fund additional service provision
- there is a risk that reporting and audit arrangements for the local government pension scheme will change in the medium term.

People management

104. Workforce related issues are currently at the forefront of local government business, as councils continue to deal with outstanding equal pay claims including those at industrial tribunal. In addition, a number of councils have yet to implement the single status agreement. Councils also need to implement the age discrimination legislation that was introduced in October 2006 and consider the proposed changes to the local government pension scheme. The financial implications of all these matters are significant and will affect employer/employee relationships.

Single status and equal pay

105. In June 2008, it was reported to council that the failure to meet equalities duties has already cost the council over £3 million in equal pay compensation; the cost for 2007/2008 was over £1 million. Equal pay compensation liabilities will continue to rise until single status is introduced. Significant risks remain while existing pay reward structures are in place.
106. The majority of Scottish councils have now implemented single status or have firm plans in place for implementation. Shetland Islands Council does not expect to implement an agreement until April 2009 at the earliest. Following the rejection of a proposed settlement in March 2007, a single status steering group and project team was formed.
107. Job redesign and job families has offered the council a potential way forward that will deliver pay rises to many staff whilst moderating or eliminating the loss to the remaining staff. New proposals have been developed which deliver these objectives to the majority of staff. However some historic working arrangements for particular groups continue to provide challenges, which have yet to be resolved.
108. The work of the project team has confirmed that delivery of single status pay rises, and the full assimilation of all adversely affected staff to avoid pay losses, will increase the annual pay bill by a projected £4 million. This is in line with the estimates previously reported to council.
109. A further risk has arisen as a result of the introduction of age discrimination legislation from October 2006. This legislation prohibits direct and indirect discrimination on the grounds of age and, as such, linking length of service to pay and benefits could give rise to indirect age discrimination. Until the implementation of a single status agreement, reflecting legislation, there is a risk that the council does not comply with the requirements of the age discrimination legislation and may be open to claims.



Workforce Management

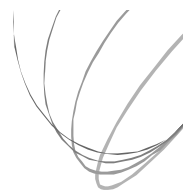
110. In 2006/07 the council introduced a management development programme to ensure service managers have the relevant skills to drive the council forward and achieve its corporate objectives. The programme involves 360 degree review to ensure a complete view of performance. Succession planning was the driver behind the introduction of this programme to ensure key staff are identified and provided with the necessary management skills for the future. This programme has been successful as recent internal promotions have been made to fill management positions.
111. The ongoing single status review has resulted in a delay in implementing a structured training plan for each member of staff. The council is using single status and job redesign to establish a core skills corporate training plan which can then be built on for each individual group of staff. A 3 year workforce development strategy which reflects and builds on job redesign will be developed by March 2009 and will be implemented over the next 3 years to support single status. A generic job family book and employee booklet have been developed. There is a risk that without a structured training plan in place staff will not have the appropriate skills to undertake the additional responsibilities within their revised job descriptions.
112. The staff survey originally planned for April 2007 was undertaken in May 2008. The council intend to publish the results of the survey on the council's intranet site. Human resources intend to work with managers to review the results and agree what action needs to be taken to increase the response rate and address areas for improvement.

Efficient Use of Resources

113. The council signed up to the National Recruitment Portal for Scottish local authorities in October 2008. Myjobscotland.gov.uk allows participating authorities to advertise vacancies and candidates are able to search for local authority jobs across Scotland. Each council also has a dedicated mini-site where it can publish additional information for candidates, such as council and local area profiles. Key benefits provided by the portal include:
- a single source for council job adverts to improve the candidate experience
 - reducing the cost of recruiting for councils
 - accessing a wider pool of applicants
 - the promotion of local government as an exciting dynamic career option
 - an on-line streamlined recruitment administration function.

Absence Management

114. During 2007/08 6.8% of chief officers and local government employees' working days were lost due to sickness absence. The human resources 2008/09 service plan is committed to developing a promoting attendance strategy to reduce the levels and costs of sickness absence within service areas and across the council. Reducing council wide sickness absence continues to be a priority area for 2009/10. A promoting attendance project is in place which includes an early intervention pilot for muscular skeletal injuries and stress related ill-health. Work has also taken place with services to tackle sickness absence hotspots.



Immediate priorities and risks

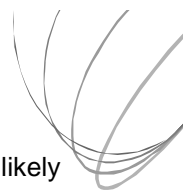
- equal pay compensation liability will continue to rise until single status is introduced
- as part of single status implementation training plans for staff need to be developed
- targeting sickness levels within the respective service departments.

Asset management

115. Best value requires councils to demonstrate the sound use of resources covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as vehicle fleets, stock and IT.

Strategic Planning

116. In March 2008, we reported the corporate estates management plan was progressing and had plans in place to complete the review of the non housing estate by the end of March 2008. As yet the council has still to complete this review and has advised that due to ongoing staffing issues it is unlikely to be completed prior to March 2010. There is a risk that until the estate management plan is in place, the assets of the council are not being utilised in the most effective way.
117. The housing supply issue in Shetland is worsening. Right to buy cases are diminishing the housing stock and there are increasing homelessness presentations. The council made the policy decision the housing repairs and renewals reserve would be dedicated to achieving increases in housing stock. Since 2006, a range of purchases have been made and more projects are currently in development. However, the council has reported a deficit of £0.597 million on its Housing Revenue Account for 2007/08 which has to be met from the HRA reserves. Should this persist, it will diminish the availability of reserves to invest in extra housing stock with the risk there will be insufficient housing available to meet demand.
118. A report by the head of finance; Council Reserves and Budget Strategy, 2009/10 and beyond was presented to the council on 10 September 2008. This stated that projections based on current trends suggest that the HRA reserve will be exhausted by 2013, after which there will be no means to support either revenue or capital expenditure within the HRA. Should these trends persist, it may have an impact on the council's compliance with the Scottish Housing Quality (SHQ) standard by 2015.
119. The council made a submission to the Executive in May 2008, where it was indicated there should be compliance with the SHQ standard by 2015. Since the submission was completed, the council has undertaken a review across Shetland to obtain an accurate database on the condition of all housing accommodation. The council is currently working on this information and hope to re-run a cost model in 2009. This will then guide the council's work into the future. In the meantime the council is ensuring that any improvement works are to SHQ standard.
120. All major works have been carried out to improve disabled access to council buildings. Where a building cannot be modified for any reason, i.e. it is a listed building, then the actual service is altered or provided from a different building. An annual budget is set for disabled access works, much of which is



spent on schools. Audits of other council buildings are due to commence later in the year and it is likely that these will pick up minor improvements and smaller areas of work.

Information Management

121. As reported in 2007/08 the council do not have a comprehensive system in place for measuring asset management performance. Whilst work is being undertaken to implement a computer aided facilities management system (CAFM) there has been slippage in consolidating the estates and maintenance records into a single database to improve the availability of information on the council's asset base.
122. The building maintenance section is currently undertaking the first stage of implementation by populating the system with the details of all buildings. Once the system is operating the building maintenance functions it will be extended to the asset and properties unit to cover asset management. It is estimated that it will take three years from first populating the system to become fully operational. With no system in place to monitor asset management performance, there is a risk that council assets are not being effectively utilised.

Systems and Techniques

123. A key part of the prioritisation and option appraisal process should be to undertake post implementation review to determine whether the capital projects met the original objectives and to take forward any lessons learned. The council currently undertake post implementation reviews on an informal basis following the completion of a capital project. The Capital Programme Service (CPS) is currently seeking ISO 2001 accreditation which will require formal post implementation reviews.
124. The (acting) assets and properties manager keeps up to date with technical developments through the RICS continuing professional development scheme. However, no formal asset management training is offered to council officers. The council should ensure there is a clear commitment to asset management throughout the organisation, with elected member and officer roles clearly set out and supported by training.

Immediate priorities and risks

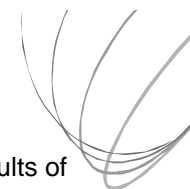
- addressing ongoing financial pressures on the HRA
- introducing a comprehensive system in place for measuring asset management performance.

Longer term considerations

- consolidating the estates and maintenance records to help improve the availability of information on the council's asset base.

Procurement

125. In March 2006, the McClelland Report concluded that public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.



126. In December 2007, the Scottish Local Authorities Chief Internal Auditors' Group published the results of a national review of local authority compliance with best practice procurement arrangements set out following the McClelland Report which reported overall compliance at 50 percent.

Main Issues

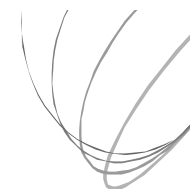
127. In July 2007, the council approved a procurement strategy which covered a number of initiatives to progress a more efficient approach to the procurement processes. In June 2008, the waste services manager was assigned to establish a corporate procurement function within the capital programme service and to progress the implementation of the procurement strategy.
128. The report presented to council in September 2008 identified that currently procurement within the council remains largely a devolved area of work amongst all services. Prior to the appointment of the waste services manager there had been no one service or individual with the role to co-ordinate procurement across services, to engage with the national agencies (Procurement Scotland, e-Procurement Scotland and Scotland Excel) to represent the needs of Shetland Islands Council and to assess the benefits of national contracts for Shetland or to seek local collaboration.
129. The council joined Scotland Excel in October 2008. The benchmarking process to date has demonstrated that the council can achieve significant savings (£366,000) through participation with Scotland Excel and Procurement Scotland. The conditions of membership are such that procuring officers would require to have a sound business case for the procurement of goods, work and services not to be sourced via Scotland Excel. One such example where the council has agreed with Scotland Excel that it will not be pursuing national contracts is the purchase of local food.
130. Whilst the council has made positive steps they acknowledge the procurement policy requires to be further developed to realise the potential for significant savings and to fully incorporate the aims of the corporate plan.
131. A review has been undertaken in respect of the current arrangements for the purchase of stationery within the council. The review has identified that the council could make savings of up to £100,000 by requisitioning stationery directly through the Procurement Scotland contract.

Immediate priorities and risks

- the procurement policy requires to be further developed to realise the potential for significant savings and to fully incorporate the aims of the corporate plan.

Information Management

132. Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency. In the last few years, local authorities have invested in e-procurement, contact centres, better web-sites and improved ICT infrastructure.
133. The Data Protection Act 1998 (DPA), Freedom of Information (Scotland Act) 2002 (FOISA) and other pieces of legislation increase the requirements for effective information management across all aspects of local government. The public and other stakeholders have a need for easy access to information. They also have a higher awareness of data protection and information issues.



Data Handling

134. In 2007/08 we assessed the general governance arrangements in place with regard to the controls relating to data handling. This was in response to the Scottish Government's concerns regarding data leakage in the public sector. The council has embarked upon a programme to improve information governance by reviewing information security which has resulted in the re-issue of the information security policy (ISP), although it is acknowledged this requires to be reviewed annually.
135. There remains scope for improvement in the availability of the security procedures and guidelines and in the training material provided. These issues, together with matters relating to the secure encryption of data, are being addressed by officers and will be followed-up during our 2008/09 review.

Citizen information

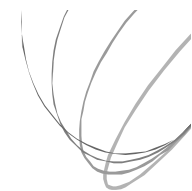
136. Within the council services do not share information in a routine manner, with most information being held by services for a single purpose. This in itself does not lead to inefficiency or ineffective delivery of service, but the convergence of data can provide a number of benefits such as avoiding errors in client information.
137. A building block in the efficient use of information is an information management strategy or equivalent linked with the organisations corporate vision and objectives. It was found that although there are policies for the sharing of information there is no over arching information management strategy in place to provide direction and consistency of approach.

ICT investment

138. The council has an ICT Strategy covering the period 2007-2012 and has developed an ICT infrastructure capital budget from 2009 through to 2014. To support the delivery of the vision and projects detailed in these strategic documents the council uses a formal project management methodology, PRINCE. This is to ensure all activities are the subject of authorisation and expected costs and benefits are documented.
139. It is an expectation that investment in ICT systems will provide efficiencies and best value, while complying with national initiatives for e-Government. The council's on-line services have been showing a steady rise in take up over the last 2 years and through public awareness the council aim to continue to increase the volume of on-line transactions.

Legislative environment

140. The council has corporate policies in place with regard to fulfilling its legal and statutory responsibility for data protection and freedom of information. In addition there is an ISP, revamped and re-issued in 2008, to provide a framework and guidance covering operating policies and procedures.
141. While the main headline legislation is mentioned in the security policy, and this includes the Computer Misuse Act, there are now many additional pieces of legislation covering the secure use of ICT and data which should also be recognised and highlighted. These include acts are such as the Regulatory and Investigatory Powers Act (RIPA) and copyright laws.



Government initiatives

142. The council has an appreciation of the main government initiatives currently being pursued in relation to the efficient use of ICT and information, and will comply with national initiatives for matters relating to e-Government when this coincides with local objectives. By way of example, the council signed up to the National Recruitment Portal for Scottish local authorities in October 2008. The council are also involved in the Highlands and Islands Pathfinder project for networking public sector sites, such as schools.
143. Although green ICT is a government priority the council does not have a specific policy in place. There are processes and procedures for matters such as disposal of equipment e.g. PCs; however more focus would be achieved from a specific policy to define targets and measures of success.

Infrastructure

144. The council has an ICT Business Continuity Plan – Update 2007 in place to ensure it is able to respond if service is interrupted by accidental or deliberate threat. This policy is the subject of regular review and is due to be updated. In addition the council have contracted consultants to look at their wider business continuity requirements.
145. With regard to the Civil Contingencies Act communications will feature as a priority and in this context the ICT Unit has responsibility for the council's telephony and has developed a back-up system situated at Lystina House. While there is inbuilt resilience in the telephony system the back-up system has not yet been fully load tested.

Immediate priorities and risks

- establishing an overarching information management strategy
- updating their security policy to recognise all relevant legislation relating to the use and processing of information systems.

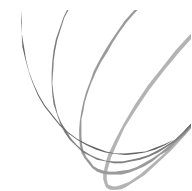
Longer term considerations

- The council does not have a green ICT policy in place to measure performance.

Service priorities and risks

Competing Financial Pressures

146. Education and Social Care Services is the largest department within the council, accounting for over half of the annual budget. The department has to cope with competing financial pressures between the two services which are both demand led and face a number of challenges to ensure that the existing service provision can be provided within budget.
147. Following the settlement from the Scottish Government in 2008/09, education and social care received an additional £5 million as part of the 2008/09 budget allocation. This allowed the department to continue to provide existing levels of service. As at the end of August 2008, the budget was £2.953 million underspent. During 2008/09 the department has been significantly understaffed with approximately 50% of the underspend in respect of employee costs. The majority of vacancies have now been filled which should result in actual spend more closely matching the budget allocation in 2009/10.



Resources

148. The education department has had difficulty in recruiting Head Teachers. The posts were advertised several times before sufficient candidates could be identified for interview. Social care services faced similar problems recruiting carers; however, a large recruitment drive towards the end of 2008 resulted in a number of the vacancies being filled.

External Scrutiny

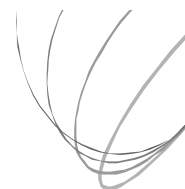
149. Her Majesty's Inspectorate of Education (HMIE) and the Social Work Inspection Agency (SWIA) are the main inspectorates in relation to education and social care services. HMIE undertook an inspection of the education service during 2008 and SWIA undertook an inspection of the social work service during 2007. The results of these inspections are discussed below along with our own assessment of these services. The child protection inspection is currently underway within the council.

EDUCATION SERVICES

Model for Education

150. In July 2007, the council's services committee agreed a 4-year service plan linked to the council's Corporate Plan. In relation to the schools service, the plan states: "Shetland schools population projections anticipate a substantial reduction in pupils within a relatively short time frame. The challenge for the authority is, therefore, to develop a modern "blueprint" for the shape of the service across Shetland for 10 years time. This model will consider the educational and financial viability levels for schools, their host communities as well as important associated issues such as transport requirements. It is anticipated that significant capital investment will be required to bring some schools and facilities up to a modern standard".
151. The council are committed to producing a model for education by 2009 that considers the educational and financial viability for schools and communities. At the services committee in January 2008 a report was presented entitled, "Developing a "Blueprint" for the Education Service". The committee agreed to the establishment of a working group, consisting of officers and members, to undertake the 'blueprint' review. The Blueprint working group met in April 2008 and it was decided to have sub-groups to look at quality education and transitions at three stages: Pre-School/Primary, Secondary/Further and for pupils with Additional Support Needs.
152. Within each area of Pre-School/Primary, Secondary/Further/Higher and Additional Support Needs, the working group identified critical issues both national and local, which require further consideration as they will impact on how any blueprint for education in Shetland may look in the future. Specific issues include, the concordat principles, i.e. lower class sizes and free school meals, the increase in hours within the entitlement to pre-school education, the implementation of curriculum for excellence and the proposed changes to the national qualifications framework in Scotland.
153. In order to inform the direction of the blueprint, a programme of consultation was developed to seek the community of Shetland's views on the issues. The results of the consultation exercise, along with any key messages, were presented to a special services committee on 12 February 2009.
154. By taking the results of the consultation into account, the council's broad educational mission is to develop principles based on equality, entitlement, access and quality of delivery to take forward

education in Shetland over the next ten years within budget. Action plans are to be prepared in a number of areas based on these principles and will be presented to the services committee in due course. We will monitor progress throughout the year.



Rationalising the School Estate

155. There are a number of schools that could potentially be identified for closure as a means of rationalising the school estate. Some schools are easier than others to identify and it is likely that in some schools a natural point for closure can be identified. Both Mid Yell and Anderson high school have been designed above the current school role to accommodate any future transfers. This is likely to be progressed on a five to ten year timescale.
156. The council faces a number of difficult decisions in relation to the educational service within the current financial constraints. In the past, decisions to close schools have been very unpopular with those sections of the public that are directly affected. There has been some favourable feedback where the public have recognised that these decisions were necessary to provide a better education service to the children. However, with the public generally being against the closure of existing schools, there is a risk that future decisions will be deferred without a conclusion being reached.
157. Officers play a vital part in ensuring that members have the capacity and knowledge to make these difficult decisions. There is a risk that if the council do not address the difficult financial choices required then it will be unable to provide a sustainable educational service.

Specific Capital Projects

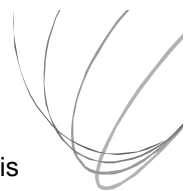
Anderson High School

158. The new Anderson High School (AHS) capital project is the largest individual capital investment project within the capital programme. The project is fundamental to the council being able to deliver a quality education provision to more than 800 pupils. It was reported in June 2008 that the project, as currently designed, would be well over the indicative budget of £48 million. In August 2008, members were asked to agree to a revised programme, with a target date for submission of a planning application of March 2009 and amended governance and management arrangements.
159. In December 2008 an external project manager was appointed to support the AHS project. It is expected that the project manager will be key in advising the council as the project develops. At a services committee on 12th February, members agreed to submit a planning application for the project to go ahead on the current site. It is expected that the project can be built within the approved budget; however, a final cost plan will be reported to members at a later date.
160. As discussed earlier, in October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects. This highlighted that unclear project briefs and delays in approving capital projects have resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an earlier stage. AHS was one of the three projects outlined in the report.

Mid Yell junior High School

161. Outline designs have been prepared and the project is being taken forward with the preferred bidder to conclude the detailed design and ensure that it is within the £6.8m budget while still achieving a quality

design and a range of facilities which will enable the school to develop into the future. This period is expected to last between four and six months. At the end of this period the council will be presented with the key information for consideration before a decision is taken on whether or not to proceed to construction. If approved, the project will commence in the next financial year.



Inspectorate Reports

HMIE Inspection of Education Authorities

162. The education function of the council was inspected in January 2008 as part of HM Inspectorate commitment to inspect and report on the quality of education and to help secure improvement across Scotland. The report by HMIE was published on 8 July 2008.
163. There were ten quality indicators which were examined. Five of these indicators were evaluated as very good, four evaluated as good and one was evaluated as adequate. The schools service prepared an action plan detailing how the main points for action are to be addressed and presented it to the services committee in October 2008. The District Inspector will continue to monitor progress made as part of the agency work with the council.

HMIE Inspection of Community Learning and Development

164. HMIE undertook a review of Community Learning and Development services in May 2007. The inspection covered adult learning; youth services; and community work in Lerwick, North Mainland and Whalsay. The inspection process examined 9 areas based on a 6 point grading system from excellent to weak. Two areas were evaluated at very good, four as good, two as adequate and one as weak. An action plan was agreed in January 2008 to address the recommendations for service improvement.

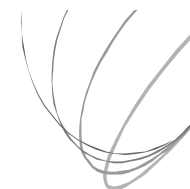
HMIE Review Inspection of Shetland College

165. HMIE carried out an inspection of Shetland College in December 2005, which was followed up in April 2008. The overall findings of the follow-up review were that: the college has in place effective learning and teaching processes; learners are progressing well and achieving appropriate outcomes; and the college is managing well and improving the quality of its services to learners. Several main points for action were identified and the college are continuing to seek how to make these improvements.

SOCIAL CARE SERVICES

Free Personal Care

166. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care.
167. Shetland Islands Council provides one of the highest levels of care at home hours (per head of population) of all local authorities in Scotland (Source – Scottish Government, Home Care Services (2006)). Shetland is the only local authority area that does not levy a charge for care at home services. The actual cost for delivering each hour of personal care is £14.83 and the cost for delivering domestic care is £9.70.



168. The council prioritises services under the following criteria:

- Priority 1 tasks are those which are essential to the client if they are to remain in the community and not be admitted to residential care or hospital.
- Priority 2 tasks need to be done, but the client could cope without harm if the service was not immediately available or had to be reduced to meet greater need elsewhere.
- Priority 3 tasks are a minimum service provided for preventative reasons. If necessary, service could be withdrawn for a long period with no risk to the client.

169. Currently, all Priority 1 clients receive a service and as many Priority 2 and 3 clients as is possible within current staff availability. New clients assessed as not being at definable risk are not receiving new services.

170. The council has acknowledged that delivery of care at home packages are currently close to saturation point. There have been a number of instances recently where clients had to remain in hospital or respite care because it was not possible to put services in place quickly enough. Over the next few years it is likely that demand will increase further for care at home services.

171. As demand increases, there is a need for the council to be more creative about how services can be provided. This includes targeting resources on high priority areas, ensuring that care assessments are based on need and not availability and working more closely and more effectively with partners, i.e. the voluntary sector. The council need to ensure that budgets and service priorities have been fully reviewed to ensure that they reflect the changing service demands.

Inspectorate Reports

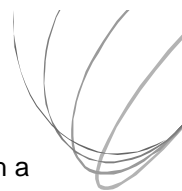
172. The Social Work Inspection Agency (SWIA) undertook a performance inspection of the council's social work services in 2007 and the report was published in August 2007. The report gave a positive account of social work services, with seven areas graded 'good' and three areas graded as 'adequate'. However, a number of key areas for improvement were identified. Following the inspection, the council agreed an action plan which was presented to the Services Committee in January 2008 with a progress report presented to the Services Committee in March 2008.

173. SWIA undertook a follow up visit in August 2008 to assess the council's progress in delivering its action plan. Overall, SWIA found that the council "had made good progress. A few recommendations had been implemented in full and for the majority good or steady progress had been made." There was only a few issues identified as requiring significantly more attention. SWIA will maintain an interest in these and other matters in the course of our audit appointment.

Child Protection

174. Recent press coverage of child abuse cases has brought the issue of child protection to the forefront. There is a risk of serious harm if services fail to protect young or vulnerable children, or fail to manage a serious offender well enough – failure here increases the probability of serious incidents.

175. A child protection inspection is underway and the council are currently awaiting the outcome from this. Feedback from the inspection is due in March 2009 and the report is due to be published in April 2009.

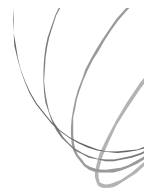


176. Specific training on sex offenders in communities was given to three members to provide them with a better understanding of the various issues and decisions involved. The members found the training to be very worthwhile and it is the intention that the training will be rolled out to the remaining councillors in due course.

Immediate priorities and risks

- coping with competing financial pressures between the two services
- the council needs to address a number of difficult decisions in relation to the educational service within the current financial constraints
- the delivery of care at home packages are currently close to saturation point
- ensuring capital projects are well managed and provide value for money.

Strategic risk plan

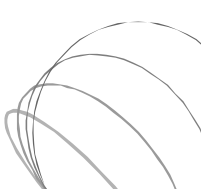


177. This report summarises the key risks facing the council. At appendix A, in our strategic risk plan, we set out the audit work that we propose to undertake in 2008/09 and future years on these risk areas. As the risks included in this report are high level and strategic in nature, they will continue to be relevant to the council for a number of years. Therefore, although our risk analysis will be updated annually, many risks will remain from year to year and the risk analysis will cover a rolling three year period.
178. Our plan reflects:
- the council's local risks and priorities
 - current national risks relevant to the council's circumstances
 - our responsibilities under the Code of Audit Practice as approved by the Accounts Commission (our annual audit plan 2008/09 sets out more detailed information on our responsibilities, approach, quality control and fees)
 - issues brought forward from last year's audit.
179. The strategic risk themes mirror the topics identified in the Priorities and Risks Framework. In many cases actions are either planned or already underway within the council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in the plan.
180. Where risks have a possible impact on the financial statements of the council they may have already been reported in our Annual Audit Plan.
181. It is in the nature of risk that the likelihood of occurrence and potential impact are variable – the absence of assurance arrangements does not necessarily mean that identified risks are statements of fact. Councils may also choose to accept, or be unable to mitigate, certain risks.

Monitoring and reporting arrangements

182. Our risk assessment work has confirmed that the council has action plans in place to address many of the risks identified. In these areas we will monitor the progress of the management assurances we have received as specified in the strategic risk plan. Any significant matters which arise from our monitoring activity will be reported on an exception basis and may be included in our annual report on the audit.

Appendix A



Shetland Islands Council – strategic risk plan

Strategic risk plan - In this section we identify a wide range of strategic risks facing the council, the related management assurances received and the audit work we propose to undertake in the coming years to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks. In some instances planned audit work will include ongoing monitoring of risks throughout our audit appointment.

Vision and strategic direction

Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community.

No	Risk	Management assurances	Planned audit action
1.	The council need to ensure there is an overarching action plan that clearly links the single outcome agreement, the corporate plan, the community plan and the best value recommendations. <i>Risk: there is a risk that the delivery of objectives is not appropriately monitored or reported.</i>	The council are in the process of aligning monitoring arrangements in order to streamline reporting.	Monitor the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
2.	The council faces ongoing financial pressures, particularly from education and social care services and single status/equal pay. <i>Risk: As financial pressures build, there is the ongoing risk that the financial strategy for maintaining a sustainable long term financial framework will not be met.</i>	The council will continue to review budget allocations as part of the 2009/10 budget setting process and beyond. The head of finance will continue to monitor and report the financial position to full council on a quarterly basis.	Monitor the council's financial position during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

No	Risk	Management assurances	Planned audit action
3.	The council needs to ensure that capital projects are well managed and provide value for money. <i>Risk: there is a risk that without a clear project brief additional expenditure will be incurred and projects will be deferred.</i>	The head of finance is to chair a senior officer multi-disciplinary working group with the objective of setting out recommendations for best practice on the future management of capital projects. Progress reports from the working group to be reported to the Audit & Scrutiny committee each meeting cycle.	Monitor the council's progress reports during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
4.	The council needs to appoint a suitably qualified candidate to the post of chief executive. <i>Risk: there is a risk that without an appropriately qualified chief executive in post by May 2009 the council will not have the necessary leadership in place to direct future strategic policy.</i>	A report was presented to council in February 2009 to commence the process for recruitment and selection of a new chief executive.	Monitor the recruitment progress in the coming months. Provide an update in our 2008/09 annual audit report.
5.	Elected members need to address the difficult decisions to ensure that the council remain within current financial constraints. <i>Risk: There is a risk that elected members do not address the difficult financial choices required to deliver services or the proposed capital programme within the agreed financial strategy.</i>	The council will continue to review budget allocations as part of the 2009/10 budget setting process. The council will prioritise the capital programme to reflect corporate aims and objectives.	Monitor the council's decision making process during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

Partnership working and community leadership

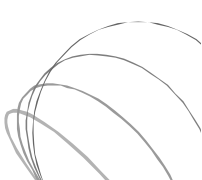
Councils work with a range of other agencies and groups, including the community themselves. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues such as inequality.

No	Risk	Management assurances	Planned audit action
6.	To underpin the alignment of community plan outcomes and national outcomes the council need to ensure there is a detailed action plan in place that clearly links the SOA, the corporate plan, the community plan and the BV recommendations <i>Risk: there is a risk that projects are not properly monitored.</i>	The council are in the process of aligning monitoring arrangements in order to streamline reporting.	Monitor the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

Governance and accountability

Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local authorities operate is based on sound decision-making and an effective process to support it.

No	Risk	Management assurances	Planned audit action
7.	The council should include both Shetland Development Trust and Shetland Charitable Trust within the group entity. <i>Risk: There is a risk that if the SCT is not recognised within the group entity, the 2008/09 financial statements will again receive a qualified opinion resulting in a further report by the Controller of Audit.</i>	The council has agreed to include the Shetland Development Trust in the council's group accounts in 2008/09. The chief executive has written to the general manager of SCT requesting the 2008/09 financial statements.	We will also report the updated position on the trusts in our 2008/09 annual audit report. A qualified audit opinion will be included in the council's financial statements if the SCT financial statements are not included within the group entity of the council.



No	Risk	Management assurances	Planned audit action
8.	To ensure that members are fully aware of the implications of any potential conflict of interests a formal training programme should be provided. <i>Risk: There is a risk that a failure to provide adequate training will result in conflicts of interest.</i>	The council will undertake a refresher exercise to identify any development needs for members. This will include involvement in arms length organisations.	Monitor the training provision during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
9.	The council should prepare an Annual Governance Statement to comply with best practice accounting requirements. <i>Risk: There is a risk the council will not comply with best practice.</i>	The council will prepare an annual governance statement for inclusion within the 2008/09 financial statements.	Review the annual governance statement included within the 2008/09 financial statements. Provide an update in our 2008/09 annual audit report.

Performance management and improvement

Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

No	Risk	Management assurances	Planned audit action
10.	The council must ensure that all SPI co-ordinators provide the reported figures within the agreed timescales together with the appropriate supporting documentation. <i>Risk: there is a risk that if timescales are not met, the statutory deadline for sign off will not be met.</i>	All SPI co-ordinators will produce required information on time, to ensure that statutory deadline for sign off is met.	Review the 2008/09 SPIs as part of our audit work. Provide an update in our 2008/09 annual audit report.

Risk management

Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.

No	Risk	Management assurances	Planned audit action
11.	The council's risk management policy is out-of date and is currently being re-written. <i>Risk: there is a risk that the process and procedures for risk management are not being consistently applied.</i>	The revised risk management policy will be presented to the Audit Committee for approval on 6 May 2009.	Review the council's updated risk management policy. Provide an update in our 2008/09 annual audit report.
12.	The council is in the process of reviewing and updating the strategic and departmental risk registers to reflect the council's eight priorities identified within the corporate plan and service-specific issues respectively. <i>Risk: there is a risk that until the registers are updated the council may not identify an imminent risk facing the council.</i>	Work is ongoing in both of these areas and it is anticipated that all Risk Registers will be updated and entered onto the database by September 2009.	Review the council's updated risk registers. Provide an update in our 2008/09 annual audit report.
13.	There is no process in place to allow the council to report identified risks to the community planning board. <i>Risk: there is a risk that the community planning board is unaware of risks facing partners resulting in appropriate action not being taken.</i>	The Safety and Risk Manager will liaise with the Community Planning Board/partner organisations to determine, and subsequently pull together, Risk Management arrangements across all partner agencies in keeping with the aim of the Single Outcome Agreement.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

No	Risk	Management assurances	Planned audit action
14.	There is no formal reporting process which ensures that risk identification, assessment and management are an integral part of the decision making process. <i>Risk: there is a risk that the decision making process does not consider risk identification, assessment and management.</i>	The Risk Management Board will consider introducing a new element to the Council's report template incorporating of a 'Risk Management Implications' section which will require authors to detail upside and downside risk thereby leading to a more informed decision making process.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
15.	There is little evidence of Business Continuity plans across council departments. <i>Risk: there is a risk that business disruption extends beyond tolerable limits and recovery costs are greater than necessary.</i>	The Council has contracted with an external provider to achieve an in-depth process to work with all Services to ensure BC plans are created, tested and kept up to date. These plans will be entered into the Risk Management database and will become a regular item on the Risk Management Board agenda.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

Use of resources - financial management

Good financial management is about efficiency, effectiveness, best value and tight financial control. Councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly.

No	Risk	Management assurances	Planned audit action
16.	The council faces the challenge of budgeting for no increase in council tax for 2010/2011. <i>Risk: reserve balances will be used to support general fund expenditure. The target balance of £250 million may not be achieved and maintained.</i>	The council will monitor general fund expenditure to ensure that overspends are managed and financial targets are met.	Monitor the council's financial position during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

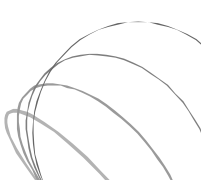
No	Risk	Management assurances	Planned audit action
17.	<p>The council should undertake a review of budget allocation to ensure that these are properly matched to service need. Specific risks have been identified with free personal and nursing care and school estate.</p> <p><i>Risk: There is a risk that without a full review the budget allocated to service departments will not reflect current service provision.</i></p>	<p>The council will continue to review budget allocations as part of the 2009/10 budget setting process.</p> <p>The chief executive and Executive Management Team are due to meet with Heads of Services to identify where budget estimates can be reduced and make budgets more realistic.</p>	<p>Review the council's progress during the course of our audit appointment.</p> <p>Provide an update in our 2008/09 annual audit report.</p>
18.	<p>The capital programme is heavily over-subscribed, with a funding gap of £36.666 million identified to 2010/11. This is before the inclusion of Anderson High School at an estimated cost of £49 million. Current forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards.</p> <p><i>Risk: the capital programme may slip or may not be delivered and corporate priorities not achieved.</i></p>	<p>The council will prioritise the capital programme to reflect corporate aims and objectives.</p> <p>Council officers will closely monitor the achievement of the capital programme and report areas of slippage to the council on a regular basis.</p>	<p>Monitor the council's financial position during the course of our audit appointment.</p> <p>Provide an update in our 2008/09 annual audit report.</p>
19.	<p>A revised capital prioritisation process was approved in September 2008 with the intention of replacing the existing points scoring system from 2009 onwards.</p> <p><i>Risk: If a robust and transparent methodology is not maintained there is a risk the council will not be able to meet its long term financial strategy.</i></p>	<p>As a default position, the existing priority list will be used for programming in 2009/10 if the revised system is not fully operational.</p>	<p>Review the council's progress during the course of our audit appointment.</p> <p>Provide an update in our 2008/09 annual audit report.</p>
20.	<p>The charitable trust relies heavily on investment income to fund its current service provision. Given the current financial climate there is a risk that the trust cannot sustain its level of service provision going forward.</p> <p><i>Risk: the council may have to consider providing alternative funding to the trust, or consider the possibility that some services may have to be transferred back under its control.</i></p>	<p>The trust will review its own position and response in respect of events in the investment market.</p> <p>The council will await any outcome of that process and then assess whether the council needs to respond in any way.</p>	<p>Review the council's progress during the course of our audit appointment.</p> <p>Provide an update in our 2008/09 annual audit report.</p>

No	Risk	Management assurances	Planned audit action
21.	<p>International financial reporting standards are to be introduced in 2010/11 and earlier.</p> <p><i>There is a risk that significant changes will not be anticipated. This will include establishing a corporate record of untaken leave and flexitime, examining the impact on lease accounting and increasing awareness and training generally.</i></p>	<p>The council will identify a lead officer within finance for IFRS implementation.</p> <p>Finance staff will be provided with training.</p>	<p>Review the council's IFRS arrangements.</p> <p>Provide an update in our 2008/09 annual audit report.</p>
22.	<p>The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a consultation paper covering the "support for separate LGPS pension fund accounts" in December 2008.</p> <p><i>There is a risk that reporting and audit arrangements change over the medium term.</i></p>	<p>The council will continue to monitor progress in this area and respond to changes as required.</p>	<p>Monitor any changes in the pension fund account requirements.</p>

Use of resources – people management

The successful achievement of council objectives and the delivery of high quality services, whether directly by council staff or by others who are monitored by council staff, depends on the capacity, capability, competency and motivation of the workforce

No	Risk	Management assurances	Planned audit action
23.	The council has yet to implement single status, it is expected that this will be achieved in 2009. As a result the equal pay compensation liability will continue to rise throughout 2008/2009 and until single status is eventually introduced. <i>Risk: the council are exposed to continuing risks while the existing pay and grading structure remains in place, for example associated costs cannot be fully quantified and as a result initial and continuing costs may be considerably higher than expected levels.</i>	The council is to progress the implementation of single status and equal pay agreements.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
24.	As part of the single status implementation it is important that detailed training plans are provided to individual staff members. <i>Risk: there is a risk that staff will not be properly supported or trained to take on additional responsibilities within the revised job descriptions.</i>	The project team will ensure that training plans are formalised to support staff during the implementation of single status. A workforce development strategy which incorporates all aspects of job redesign is being developed by the end of March. A generic job family book and employee booklet have been developed.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
25.	The council needs to ensure that they target sickness levels within the respective service departments. <i>Risk: there is a risk that absence levels remain at an unacceptable level.</i>	The council has introduced an upgraded payroll/HR system (CHRIS21. This has allowed human resources to review absence levels. The Promoting Attendance project will result in improvements in hot spot areas and will highlight further target areas.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.



Use of resources – asset management

Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital savings, and improve value for money in service delivery.

No	Risk	Management assurances	Planned audit action
26.	The council has yet to consolidate the estates and maintenance records to help improve the availability of information on the council's asset base. Until this is in place, clear linkages with the corporate planning process cannot be made. <i>Risk: there is a risk that the assets of the council are not utilised in the most effective way.</i>	Data relating to the Council's properties has been gathered from service areas. This data needs to be translated into an Estates Management Plan. The council has advised that due to staffing issues this is unlikely to be completed until March 2010.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
27.	Financial pressures in the HRA have resulted in a deficit in 2007/08 which has to be met from the HRA reserves. <i>Risk: should this persist, it will diminish the availability of reserves to invest in extra housing stock. Projections based on current trends suggest that the HRA reserve will be exhausted by 2013, after which there will be no means to support either revenue or capital expenditure within the HRA. This could have an impact on the council's compliance with the SHQS standard by 2015.</i>	The council will monitor HRA expenditure to ensure that overspends are managed and financial targets are met.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.
28.	The council do not have a comprehensive system in place for measuring asset management performance. <i>Risk: there is a risk that the assets of the council are not utilised in the most effective way.</i>	Work is being undertaken to implement a Computer Aided Facilities Management System (CAFM), however, there has been slippage in consolidating the estates and maintenance records into a single database to improve the availability of information on the council's asset base.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

Use of resources – procurement

In March 2006, the McClelland Report was published and it concluded that in most areas examined the main public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated that these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.

No	Risk	Management assurances	Planned audit action
29.	Procurement policies need improvement. The council needs to generate efficiency savings through its recent membership to Scotland Excel. <i>Risk: there is a risk that best value will not be achieved until procurement efficiencies are generated.</i>	The council will continue to work to further develop procurement policies in 2008/09. The council joined Scotland Excel in October 2008.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

Use of resources - information management

Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency.

No	Risk	Management assurances	Planned audit action
30.	The council does not have an overarching information management strategy <i>Risk: There is a risk that there is no consistent approach in sharing information across service departments.</i>	The council will scope a corporate information management project.	Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

No	Risk	Management assurances	Planned audit action
31.	There council need to update their security policy to recognise all relevant legislation relating to the use and processing of information systems. <i>Risk: There is a risk that all legislation relating to the secure use of ICT systems and data is not fully recognised.</i>		Review the council's progress during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

Service priorities and risks

The Scottish Government emphasis on streamlined, better co-ordinated scrutiny means that it is important that audit and inspection agencies understand each others' businesses, be aware of the risks in each others' sectors, and share intelligence to avoid overlap and duplication of scrutiny activity.

No	Risk	Management assurances	Planned audit action
32.	Education and Social Care Services is the largest department within the council, accounting for over half the annual budget. The department has to cope with competing financial pressures between the two services, both of which are demand led. <i>Risk: As financial pressures build, there is a risk that budgets are not reviewed to reflect these changes, or top-sliced without a review of overall priorities, resulting in an ineffective use of resources.</i>	The council will continue to review budget allocations as part of the 2009/10 budget setting process.	Monitor the council's financial position during the course of our audit appointment. Provide an update in our 2008/09 annual audit report.

No	Risk	Management assurances	Planned audit action
33.	<p>The council faces a number of difficult decisions in relation to the educational service within the current financial constraints. Sections of the public are against the closure of exiting schools. There is a risk that these decisions will be deferred with no conclusion reached. Officers play a vital part in ensuring that members have the capacity and knowledge to make these difficult decisions.</p> <p><i>Risk: If the council does not address the difficult financial choices required then it will be unable to continue to provide a sustainable educational service.</i></p>	<p>The council is committed to producing a model for education by 2009.</p>	<p>Review the council's progress during the course of our audit appointment.</p> <p>Provide an update in our 2008/09 annual audit report.</p>
34.	<p>The council has acknowledged that delivery of care at home packages are currently close to saturation point. Over the next few years it is likely that demand will increase further for care at home services. The council therefore need to ensure that budgets and service priorities have been fully reviewed to ensure they address the changing service demands.</p> <p><i>Risk: there is a risk that the council will no longer be able to meet the demands of the service.</i></p>	<p>The council are aware that the delivery of care at home packages are at full capacity. The council is looking at a number of options to resolve this ongoing issue.</p>	<p>Review the council's progress during the course of our audit appointment.</p> <p>Provide an update in our 2008/09 annual audit report.</p>



REPORT

To: Audit and Scrutiny Committee

From: Head of Finance

24 September 2009

REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2008/09 AUDIT REPORT NUMBER: F034-D1

1.0 Introduction

- 1.1 The report to those charged with governance on the 2008/09 audit, prepared by the Council's auditor Audit Scotland, is enclosed.
- 1.2 The Audit manager Mark Ferris from Audit Scotland will be at the meeting to present the report.

2.0 Report to those charged with governance on the 2008/09 audit

- 2.1 This report, more commonly and briefly referred to as the ISA 260 letter, discharges the auditor's duty under International Standard on Auditing 260 to report on the major issues identified during their audit of the Council's Abstract of Accounts.
- 2.2 The report also contains the auditor's proposed audit certificate which contains audit qualifications in respect of the non-grouping of accounts with the Shetland Charitable Trust and on financial assets.

3.0 Financial Implications

- 3.1 This report has no direct financial implications.

4.0 Policy and Delegated Authority

- 4.1 This report is presented to the Audit & Scrutiny Committee as the body charged with consideration of audit matters.

5.0 Recommendations

- 5.1 It is recommended that the Audit & Scrutiny Committee note the ISA 260 letter and undertake to keep under review the issues raised by the auditor.

Date: 18 September 2009
Our Ref: DAH/KS/A/9/31

Report No: F-034-F

Shetland Islands Council

Report to those charged with governance on the 2008/09 audit

September 2009



 AUDIT SCOTLAND

Contents

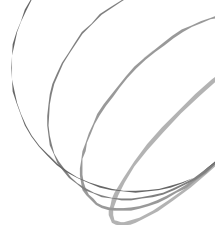
Key Issues	1	Proposed Independent Auditor's Report	9
Introduction	1		
Status of the audit	2		
Matters to be reported to those charged with governance	2		



Key Issues

Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in time to enable appropriate action.
2. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the audit engagement lead and audit staff
 - the overall scope and approach to the audit, including any expected limitations, and the form of reports expected to be made
 - expected modifications to the audit report
 - management representations requested by us
 - unadjusted misstatements
 - material weaknesses in internal control identified during the audit
 - views about the qualitative aspects of accounting practices and financial reporting, including accounting policies
 - matters specifically required by other auditing standards to be communicated and any other matters that are relevant to the audit.
3. This report sets out for the council's consideration the relevant matters arising from the audit of Shetland Islands Council financial statements for 2008/09 that require reporting under ISA 260. The contents should be brought to the attention of the head of finance, chief executive and leader so that they can consider them before they sign the relevant pages of the financial statements. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of Shetland Islands Council and no responsibility to any third party is accepted. In line with good practice, this report will be considered by the audit and scrutiny committee on 24 September 2009, before the audit is concluded.



Status of the audit

4. Our work on the financial statements is now complete, subject to checking the revised financial statements, and the matters identified during the audit have been discussed with the head of finance. However as report at paragraph 19 below, we are awaiting the signed accounts for the Shetland Development Trust (SDT) before we can finalise the audit. If the council's consolidation figures for SDT were to change materially from those currently reflected in the accounts they would need to be updated.

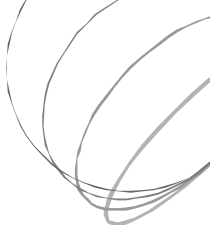
Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan submitted to management on 28 January 2009 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

Audit opinion & representations

6. Our anticipated auditor's report (appendix A) is qualified on two issues:
 - the council's group accounts do not include the Shetland Charitable Trust. We disagree with this treatment and, as the impact of the omission of this body is material to the results of the group, have referred to the disagreement in the auditor's report
 - since 2007/08 the council has used a nominal interest rate in valuing its financial assets and bond calculations instead of the effective interest rate required by the SORP. Despite assurances that the council would apply the effective interest rate in the 2008/09 financial statements, this was not undertaken. Nor has the council produced calculations to enable me to calculate the value of this error at 31 March 2009. I am therefore unable to determine whether the accounts are materially correct. I have referred to this limitation of scope in my auditor's report.
7. Several other errors were identified during the audit which the council has agreed to correct in the revised financial statements. These are detailed in the matters arising section of this report. It has been agreed that the revised financial statements will be provided to audit by 18 September for checking. Subject to these checks being satisfactory we can confirm that there are no unadjusted errors within the financial statements.

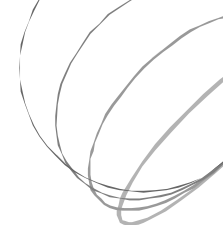
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8. As part of the completion of our audit we seek written assurances from the head of finance on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the head of finance. This should be signed and returned by the head of finance prior to the independent auditor's opinion being certified.

Accounting and internal control systems

9. Except for the issues included in this report, no material weaknesses in the accounting and internal control systems were identified during the audit 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 accounts.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. These were of a basic standard and required revision to meet SORP requirements and to enhance the reader's understanding of the accounts. Limited work had been undertaken on the preparation of the group financial statements with none of the notes being updated from 2007/08 to reflect the inclusion of the Shetland Development Trust. In addition some of the core financial statements within the group did not reconcile. This has resulted in additional audit work and made completion of our audit work more onerous.
11. It was noted that the council did not complete the Accounting Code of Practice disclosure checklist until August 2009. There were a number of instances where earlier use of this document could have improved compliance with proper accounting practice.
12. Working papers to support the 2008/09 accounts were generally satisfactory, but could be further improved by updating descriptions and dates to reflect current accounting practice and accounting periods. Opening balances should also be updated for the final audited figures carried forward from the previous year.
13. The council is heavily reliant on the financial accountant for the production and submission of the annual financial statements and for dealing with queries throughout the audit. This could become a more serious issue as the council prepares for the introduction of IFRS.

Matters arising

14. In our view, the following issues require to be brought to your attention regarding the appropriateness of the council's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties:



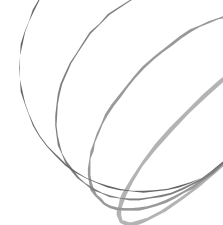
15. **Presentation of the unaudited financial statements:** The head of finance did not present the 2008/09 unaudited financial statements to either the audit and scrutiny committee or council in line with expected best practice. A provisional outturn report was submitted to full council on 1 July 2009 which covered: support services, recharged services, the general fund, the reserve fund, the housing revenue account and the harbour account. The capital programme outturn report was presented to full council on the same day but as a separate report. In 2009/10 we recommend that the head of finance presents the unaudited financial statements to council in line with expected best practice.

Resolution: The head of finance has given assurances that in future, unaudited accounts will be presented to a specially convened council meeting.

16. **Group financial statements:** Within the group financial statements Northern Joint Police Board and Highlands and Islands Fire Board are consolidated as associates. Proper accounting practice requires a charge to be made to the income and expenditure account for pension costs based on FRS17 Retirement Benefits. The Local Government Pension Reserve Fund (Scotland) Regulations 2003 provides the statutory basis for removing the FRS17 charge from the general fund so that only the actual pension payments are charged. However, this legislation does not cover the new pension schemes established with effect from 6 April 2006, by the Police Pensions (Scotland) Regulations 2007 and the Fire-fighters Pension Scheme (Scotland) Order 2007. The auditors of these joint boards have confirmed that they will qualify their audit opinions as the FRS17 charges relating to these schemes have been removed in the financial statements. The council consolidate the net worth of associates, however this issue has no impact on figures included in the council's group accounts.

Resolution: The Scottish Government intend to amend the regulation to include the new pension schemes so that this is not an issue in the future. The council have agreed to include a disclosure note within the group accounts concerning the qualification in the audit certificate of these bodies.

17. Within the group financial statements Shetland Development Trust (SDT) is consolidated as a subsidiary. Proper accounting practice requires a charge to be made to the income and expenditure account for pension costs based on FRS17 Retirement Benefits. The auditors of SDT have confirmed that the trust is exempt from the requirement to adopted FRS 17 in the preparation of its financial statements. This non-compliance has been disclosed within the notes to the group financial statements.



18. The SDT reports its fixed asset equity investments at cost and current asset investments are shown at the lower of historic cost and market value. Within the council financial statements all investments are shown at fair value which is based on the quoted market bid price provided by the council's external fund managers. This non-compliance has been disclosed within the notes to the group financial statements.

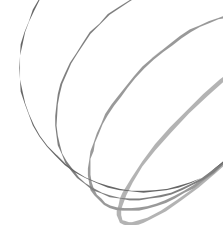
Resolution: The head of finance will endeavour to further align accounting policies within the 2009/10 financial statements.

19. The audit work in respect of the SDT is ongoing although the expectation is that the financial statements for the year ended 31 March 2009 will be approved prior to 30 September 2009. We are unaware of any outstanding material adjustments that will impact on the group financial statements. However any such adjustments not reflected within the group financial statements would be reflected within our audit certificate.

Resolution: The head of finance will endeavour to continue to work closely with the SDT to ensure the trust's 2009/10 sign off is fully aligned with the council's statutory deadline.

20. **Fixed Assets:** As in the previous two years, our fixed assets work in 2008/09 again identified a number of errors in respect of how the council accounted for the disposal of fixed assets. A total adjustment of £1.13 million was required to be made to both the revaluation reserve and capital adjustment account.
21. The calculation for the loss or gain on the disposals was incorrect within the unaudited accounts. Audit identified an adjustment of £1.59 million. This was made up of two errors. Firstly the council incorrectly included a gain on sale figure of £864,000 when this was recorded within the asset register as a loss on sale. In addition, as we reported in our review of internal key financial controls report in May 2009, there are weaknesses within the capital accounting system. We identified system generated errors which amended the reported loss on sale to £727,000.
22. Given the number of issues identified within our review of fixed assets, the council should ensure that weaknesses within the fixed asset register and the capital accounting system are fully addressed in 2009/10.

Resolution: The council has agreed that the identified errors will be corrected within the revised financial statements. Fixed asset accounting procedures should be reviewed for 2009/10.



23. **Debtors / creditors:** As part of our financial statements work we review on a sample basis the level of debtors and creditors reported within the unaudited accounts. As part of this work we identified that both the debtors and creditors balances were overstated by £5.13 million.

Resolution: The council has agreed that the identified errors will be corrected within the revised financial statements.

24. **Pension Fund:** The Pension SORP the Financial Reports of Pension Schemes – A Statement of Recommended Practice (2007) provides authoritative guidance on pension fund annual reports and accounts of funded pension schemes. The investments are required to be valued at their fair value and where there is an active market the bid price is the appropriate quoted market price. The council however continued to apply the mid price in valuing the investments. This resulted in an adjustment of £602,000.

Resolution: The council has agreed that the identified errors will be corrected within the revised financial statements.

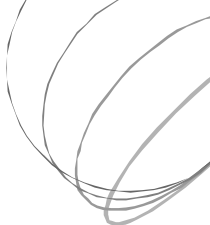
25. **Statement of Total Recognised Gains and Losses (STRGL):** The unaudited accounts reported a deficit figure of £8.774 million for the revaluation arising on fixed assets. Audit identified that this figure was mis-stated and a total adjustment of £15.252 million was required, resulting in a revised surplus figure of £6.478 million. In addition a deficit figure of £22.897 million was reported for the revaluation arising on available for sale financial assets. This figure was also mis-stated and required to be adjusted by £7.825 million, resulting in a revised figure of £30.722 million.

Resolution: The council has agreed that the identified errors will be corrected within the revised financial statements.

26. **Impairment of Financial Instruments:** At each balance sheet date an assessment should be made as to whether there is any evidence that the value of any financial asset or group of financial assets may have fallen i.e. its value has been impaired. Despite assurances from the head of finance following the audit of the 2007/08 accounts, that an impairment assessment would be carried out at 31 March 2009 no assessment had been made to determine whether evidence of impairment exists at the balance sheet date.

Resolution: The head of finance has given assurances that this will be reviewed during preparation of the 2009/10 financial statements.

27. **Stock balances:** At 31 March 2009 there was a difference of £160,000 on marine operation stock, between the expected year end stock figure per the stock control system and the reported figure per



the year end stock-take. This matter has been raised with the head of finance but as yet no explanation has been provided to account for the reported variance. Whilst this does not have a material impact on the financial statements, an explanation is to be provided to audit for this variance.

Resolution: There is an ongoing investigation to resolve this matter. An explanation is to be provided to audit.

28. **Anderson High School:** The full council decided on 16 September 2009 to abandon plans to build the new Anderson High School on the existing Knab site. The financial statements include an amount of £3.07 million in respect of this site within assets under construction. The council decision will result in this amount being written off within the 2009/10 financial statements. This has been disclosed as an unadjusting event after the balance sheet date within the 2008/09 financial statements.

Resolution: The council has agreed to disclose this as an unadjusting event after the balance sheet date. The head of finance has agreed to remove the capitalised expenditure from assets under construction and write this amount off to revenue within the 2009/10 financial statements.

29. **Shetland Towage Limited (STL):** In his report to council on 19 August the head of finance identified the estimated contribution of £8.3 million from the council to the Shetland Islands Pension Fund. This payment is to meet the ongoing burden of absorbing STL employees into the council pension fund. We understand that the head of finance will provide an updated report to councillors in due course on how this is to be financed.

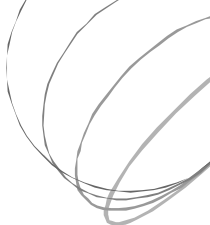
Resolution: The council has agreed to disclose this as a contingent liability. The head of finance will provide an updated report to the council during 2009/10.

30. **Annual Governance Statement:** CIPFA guidance Delivering Good Governance in Local Government recommends that the review of effectiveness of internal control should be reported in an Annual Governance Statement. In Scotland this requirement is voluntary. As in previous years the council's financial statements include a Corporate Governance Statement and a Statement on the System of Internal Financial Control.

Resolution: The council has is working to incorporate an annual governance statement in the 2009/10 financial statements.

Outstanding Information

31. **Local government financial information return:** The information provided in this return will be used for the 2009 Local Government Overview Report. Under Freedom of Information it is possible



that any national figure reported could be requested on a council by council basis. It is very important therefore that the information provided is accurate and the figures in this return, prepared by your auditor, are in accordance with the council's 08/09 accounts. Information in the format issued by Audit Scotland should be completed and signed by the head of finance for inclusion in national overview analysis.

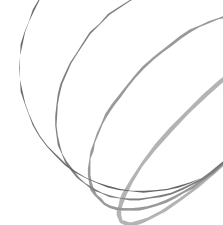
Resolution: Plans are in place for the head of finance to review the return and provide confirmation of its accuracy by 30 September 2009.

Acknowledgements

32. We would like to express our thanks to the staff of Shetland Islands Council for their help and assistance during the audit of this year's financial statements which has enabled the appointed auditor to certify the statements by the Controller of Audit's target date.



18 September 2009



Proposed Independent Auditor's Report

Independent auditor's report to the members of Shetland Islands Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account, Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Pension Fund Account and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of finance and auditor

The Head of finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

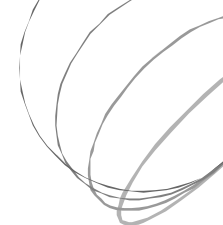
My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Shetland Islands Council and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent mis-statements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements. In relation to the valuation of investments in bonds the council has not provided me with an assessment of the differences between its approach to valuation and income recognition and that required by the 2008 SORP.

Qualified opinion arising from disagreement about the accounting treatment of Shetland Charitable Trust

The 2008 SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to give a true and fair view and a full picture of the authority's activity and financial position.

The council's group accounts do not include the Shetland Charitable Trust, and its subsidiaries. In my opinion, the substance of the council's relationship with this body represents a significant interest and their omission results in a material mis-statement of the group accounts.

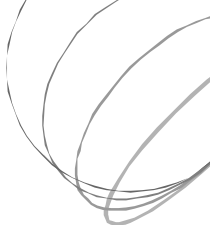
In February 2009 the council's elected members approved a recommendation from the Chief Executive for the results of the Shetland Charitable Trust to be requested from the trust for inclusion in the council's group accounts. In March 2009 the same councillors acting in their capacity as trustees of the Shetland Charitable Trust voted against providing the information required by the council to facilitate the consolidation of the trust's results into the group accounts. A new Chief Executive has been in post since June 2009. He is currently reviewing the council's position on this issue.

Based on prior year financial statements, I estimate that the Shetland Charitable Trust and its subsidiaries would contribute:

- a deficit position of approximately £3 million to the Group Income and Expenditure Account (resulting from income of £13 million and expenditure of £16 million);
- net assets of approximately £219 million to the Group Balance Sheet (resulting from fixed assets of £23 million, investments and loans of £200 million, net current assets of £2 million and long term liabilities of £2 million).

Qualified opinion arising from the limitation of scope of the audit on the accounting treatment of financial assets

The council has total investments of £216.25 million in the balance sheet (£257.27 million at 31 March 2008), which are financial assets. Since 2007/08 the SORP has required that the effective interest rate method be applied to financial assets to determine the interest and investment income to be included within the income and expenditure account together with associated prior year adjustments. Included in these investments are bonds of £90.08 million. More specifically, it is necessary to formally calculate an effective interest rate where a bond has been purchased at a premium or a discount to ensure this is amortised over the life of the bond.



Since 2007/08 the council has used a nominal interest rate in valuing its financial assets and bond calculations instead of the effective interest rate required by the SORP. During the audit of the 2007/08 financial statements the council provided calculations which estimated that the difference between the nominal interest rate used by the council and the effective interest rate resulted in a difference of approximately £1.43 million as at 31 March 2008. The net effect of which was to overstate the general fund balance by £1.43 million and understate the available for sale reserve by the corresponding amount. Despite assurances at this time that the council would apply the effective interest rate in the 2008/09 financial statements, this was not undertaken. Nor has the council produced calculations to enable me to calculate the value of this error at 31 March 2009. I am therefore unable to determine whether the accounts are materially correct.

Except for

- the omission of the results of Shetland Charitable Trust from the group accounts; and
- any adjustment that might be required to the accounting treatment of financial assets,

in my opinion the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Shetland Islands Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In respect solely of the accounting treatment of financial assets I have not received all the information and explanations necessary for my audit.

*Fiona Mitchell-Knight FCA
Assistant Director of Audit (Local Government)
Audit Scotland
7th Floor Plaza Tower
East Kilbride, G74 1LW*

30 September 2009