

# MINUTES

## A&B - Public

### **Audit Committee**

**Council Chamber, Town Hall, Lerwick**

**Monday 29 June 2015 at 10.00am**

#### **Present:**

A Duncan	B Fox
A Manson	T Smith
M Stout	V Wishart

#### **Apologies:**

M Burgess	S Coutts
A Westlake	

#### **In attendance (Officers):**

C Ferguson, Director of Corporate Services  
J Riise, Executive Manager – Governance and Law  
J Belford, Executive Manager – Finance  
E Cripps, Internal Auditor  
R McNeillie, Audit and Systems Assistant  
M Mullay, Performance and Improvement Officer  
C Anderson, Senior Communications Officer  
L Adamson, Committee Officer

#### **Also in Attendance**

G Cleaver

#### **Chairperson**

Mr Duncan, as Chair of the Committee, presided.

#### **Circular**

The circular calling the meeting was held as read.

#### **Declarations of Interest**

Mr Duncan declared an interest in Item 4, “Pension Fund – Unaudited Accounts 2014/15”, as his wife is a beneficiary of the Council’s pension scheme. Mr Duncan confirmed he would leave the Chamber for that item.

In the absence of the Vice-Chair, and following nominations, Mr Stout was appointed Interim Chair for Item 4.

#### **Minutes**

Subject to the following, the minutes of Audit Committee held on 26 May 2015 were confirmed on the motion of Ms Wishart, seconded by Mr Fox:

Min. Ref.11/15: Review of Internal Controls 2014/15 and Action Plan – Shetland Islands Council Pension Fund

In the final paragraph, the reference made to “Mr Bell” should read “Mr Burgess”.

14/15      **Internal Audit – Annual Report 2014/15**

The Committee considered a report by the Executive Manager – Audit, Risk and Improvement (IA-10-15-F) which presented an Annual Report on the activity of the Internal Audit Service for 2014/15.

In introducing the report, the Director of Corporate Services advised that follow up audits would now be undertaken on a more exception approach, where they will be carried out only when there are particular areas of concern.

In response to questions, the Director of Corporate Services advised on the improvements going forward in regard to the reporting on risk management. She confirmed that the role of the Audit Committee, in regard to risk management, is one of scrutiny, and advised on the need to retain a degree of independence while informing and supporting Council business.

A Member made comment that he welcomed the report, and that the work undertaken by the Internal Audit Service during the year should be commended. In referring to the updates in Sections 3.6 and 3.7 of the report, in regard to the small contracts procedures, the Member noted the assumption that it may be a further two years before all the areas of concern identified at Ferries and Ports and Harbours would be fully resolved, which he stated appeared to be a long timeframe. The Internal Auditor suggested that the two year period would be necessary as 8-9 months was needed for each contract to become established, and the number of individual contracts involved. She went on to advise that additional staff resources have been directed to contracts at Ports and Harbours and confirmed that improvements are being made. During the discussion that followed, Members were reassured that the Director of Infrastructure Services has been very proactive to address the agreed actions, and it was confirmed that the initial main concern had been resolved and the ongoing issues were relatively minor.

In referring to Sections 3.18 and 3.19 of the report, the Chair congratulated the Audit and Systems Assistant on his successful progression through the CIPFA qualification, and the Internal Audit team for completing 94% of the 2014/15 Audit Plan. The Committee concurred.

#### **Decision:**

The Committee noted the contents of the Annual Report.

15/15

#### **Audit Scotland and other External Audit Reports**

The Committee considered a report by the Executive Manager – Audit, Risk and Improvement (IA-11-15-F), which provided an opportunity to consider and monitor progress on any recommended actions resulting from Audit Scotland and External Audit body reports which have been or will be presented to the functional Committees.

The Performance and Improvement Adviser introduced the report.

In making reference to page 3 of the Appendix, the Chair highlighted the progress statement relating to the Care Inspectorate's unannounced inspection of Housing Support Shetland, "... all areas of the service were awarded a grade of 5 (Very Good). There were no recommendations for actions". The Chair congratulated the staff involved on the very positive report. The Committee concurred.

On the motion of Mr Stout, seconded by Mr Fox, the Committee approved the recommendation in the report.

**Decision:**

The Committee considered and noted the progress statements provided by Lead Officers in Appendix 1 to the report.

16/15

**Shetland Islands Council – Unaudited Accounts 2014/15**

The Committee considered a report by the Executive Manager – Finance (F-032-F), which presented the 2014/15 unaudited accounts for Shetland Islands Council.

In introducing the report, the Executive Manager – Finance advised that the preparation of the accounts has been a significant team exercise which involved not only the Council's Finance Service, but staff from throughout the Council. He went on to thank everybody who has contributed during the process, where he made particular mention to the work undertaken by Lynn Brown, Financial Accountant.

In referring Members to the Unaudited Accounts at Appendix 1, the Executive Manager – Finance highlighted the management commentary section and advised on the annual governance statement which is presented for approval by the Committee. He reported that no practical weaknesses had been highlighted during the preparation of the 2014/15 accounts. He advised however that there continues to be some concern in relation to the Council's small contracts procedures, which he confirmed is an area that will be monitored.

The Executive Manager – Finance confirmed that, following the audit by Audit Scotland, the final accounts will be presented to Committee and Council on 22 September. In response to a comment from the Chair in regard to the early completion of the draft accounts, the Executive Manager – Finance acknowledged that to achieve the sign-off date of 17 June 2015 was a good performance standard.

In response to a question, the Executive Manager – Finance confirmed that the financial accounts for local authorities have to be prepared in accordance with International Financial Reporting Standards and CIPFA guidance.

The Chair said that while he welcomed the report on the overall positive performance of the Council during 2014/15 and the reduced reliance on the reserves, there are significant challenges ahead due to the anticipated reduction in funding from the Scottish Government.

The Chair paid tribute to James Gray, the former Executive Manager – Finance for his dedication and the contributions he made to improve the Council's financial situation. On behalf of the Committee, the Chair thanked all the staff who have been involved during the preparation of the 2014/15 accounts.

On the motion of Mr Fox, seconded by Mr Duncan, the Committee approved the recommendations in the report.

**Decision:**

The Committee **RESOLVED** to:

- Consider the 2014/15 Unaudited Accounts for Shetland Islands Council; and
- Approve the 2014/15 Annual Governance Statement which forms part of those accounts.

*(Mr Duncan left the Chamber. Mr Stout took the Chair).*

17/15 **Pension Fund – Unaudited Accounts 2014/15**

The Committee considered a report by the Executive Manager – Finance (F-033-F), which presented the 2014/15 unaudited accounts for Shetland Islands Council Pension Fund.

In introducing the report, the Executive Manager – Finance reported on the requirement of the Council, as the administering authority, to prepare separate accounts for the Pension Fund. He advised on the further requirement for the Committee to approve the Pension Fund's annual governance statement, which provides an added level of assurance and compliance on the overall governance framework.

The Executive Manager - Finance advised that the operational environment and performance of the Pension Fund has been discussed throughout the year and most recently in the quarter 4 reporting at Policy and Resources Committee. He explained that the detail in the unaudited accounts will now be subject to Audit Scotland's audit process throughout the summer and the final accounts will be presented during the later part of September. The Executive Manager – Finance thanked the staff in the Finance Service for their contribution during the preparation of the Pension Fund Unaudited Accounts.

In response to a question regarding the two standards as listed in Section 2(a) "Accounting Standards Issued, not Adopted" on page 27 of the accounts, the Executive Manager – Finance advised on the standard requirement that these will be adopted where appropriate in future years.

*(Mr Cleaver attended the meeting).*

In response to questions, and in making reference to the triennial valuation of the Council's Pension Fund carried out at 31 March 2014, the Executive Manager – Finance advised that the Council's Pension Fund being 92% funded is one of the higher funded Pension Schemes across Scotland. He added that each Local Authority's Pension Fund Scheme requires to meet its deficit over an extended period of time, and the Council's target date is 2026.

On the motion of Mr Fox, seconded by Ms Manson, the Committee approved the recommendations in the report.

**Decision:**

The Committee **RESOLVED** to:

- Consider the 2014/15 Unaudited Accounts for Shetland Islands Council Pension Fund; and

- Approve the 2014/15 Annual Governance Statement which forms part of those accounts.

*(Mr Duncan returned to the Chamber and resumed the Chair).*

18/15     **Zetland Educational Trust: Annual Report and Financial Statements to 31 March 2015**

The Committee considered a report by the Executive Manager – Finance (F-031-F), which presented the Annual Report and Financial Statements to 31 March 2015 for Zetland Educational Trust (ZET).

The Executive Manager – Finance summarised the main terms of the report.

In making comment on what would appear to be a meagre return of £7,200 on ZET's investment, a Member questioned whether the funds could be reinvested where they could achieve a better return without too much risk. After advising on the present low base rate on standard bank accounts and on the limitations of the current investment due to the requirement to pay grants annually, the Executive Manager – Finance undertook to examine alternative investment opportunities for ZET and inform Members on the outcome.

During the discussion, a Member advised on his concern at the £1,200 external audit fee, where he questioned the amount of audit work that would be required for such a straightforward Trust. The Executive Manager – Finance informed on the audit standards to be met for small Trusts, where there is a requirement for an external auditor to report and present a true and fair view on their opinion, and he advised that the audit fee for ZET would have been agreed following dialogue between Audit Scotland and the Council, where the fee very much relates to the time and input required. The Executive Manager – Finance commented that for the level of funds held by ZET the audit fee charged would appear quite high, however he said that in Audit Scotland's defence, the fee charged is quite low for the work involved to audit a Trust. The Executive Manager – Finance further advised that he would have dialogue with Audit Scotland in regard to the audit fee for ZET, and would advise Members accordingly.

Reference was then made to the significant reduction in the number of bursaries and grants paid out during 2014/2015, compared to 2013/14, where Members questioned the reasons for this disparity and whether there was a need to improve the promotion of the Trust. Following a brief discussion, Ms V Wishart undertook to find out more detail on the promotion of the Trust from Children's Services and would advise Members in due course.

**Decision:**

The Committee noted the Annual Report and Financial Statements for the Zetland Educational Trust for 2014/15.

The meeting concluded at 10.55am.

Chair