

MINUTES

A & B

Special Audit Committee
Room 12, Islesburgh Community Centre, Lerwick
Wednesday 21 September 2016 at 10am

Present:

A Duncan	M Burgess
S Coutts	T Smith
M Stout	A Westlake
V Wishart	

Apologies:

B Fox	A Manson
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In attendance (Officers):

J Belford, Executive Manager – Finance
J Johnson, Senior Assistant Accountant
L Adamson, Committee Officer

Also in Attendance:

R Buist, Audit Scotland
P Fraser, Audit Scotland
D McConnell, Audit Scotland
G Samson, Audit Scotland

Chairperson

Mr Duncan, 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 3, "Pension Fund – Annual Audit Report on the 2015/16 Audit" and Item 4, "Pension Fund - Final Audited Accounts 2015/16" as his wife is a beneficiary of the Pension scheme. Mr Duncan said that he would leave the room during these items.

18/16 **Shetland Islands Council Annual Audit Report on the 2015/16 Audit**

The Committee considered a report by the Executive Manager – Finance (F-056-F), which presented Audit Scotland's Annual Audit Report on the 2015/16 Audit.

The Executive Manager – Finance introduced the report, and welcomed Mr D McConnell and his team from Audit Scotland.

In referring to the letter of Representation at Appendix B, the Executive Manager – Finance reported from the result of actions taken yesterday, where the landlord of 8

North Ness Business Park required to take vacant possession of the building. In terms of the uncertainty on the full impact of the value of the building carrying in the accounts, he advised from his discussion with Mr McConnell that reference be made to a post balance sheet event in the Audited Accounts, which has also been included in an updated letter of Representation.

Mr McConnell outlined to Members from the key messages on Page 3 of the audit report, which he said was a good report where the Council has done a great deal to stabilise its financial position. He said that while overall the Council was financially stable, there were funding challenges going forward and a requirement to realise the savings as part of the Medium Term Financial Plan (MTFP).

The Executive Manager – Finance and Mr McConnell responded to questions, and the Committee noted the following:

- Audit Scotland's national report "Major Capital Investments in Councils: follow up (January 2016)" had been reported to Policy and Resources Committee in April 2016, in line with the Council's Policy for external auditors' reports to be presented within two cycles. Shetland had not been specifically mentioned in the national report, which had included a self assessment and set out areas of good practice in managing capital investments. Since that time there has been acceptance of the Gateway Process and the Building Better Business Case model in terms of the Council's methodology for projects. Over time, the Council's processes will feed into follow up reports.
- There is a requirement for the Council's Code of Corporate Governance to be regularly updated. Work is currently underway on this project, which will be concluded by the end of the financial year.
- The Health Board and Council Accounts will not be grouped, as the relationships are between the Council and the Integrated Joint Board (IJB), and between the Health Board and the IJB. The IJB is grouped in the Council accounts as a Joint Venture. There is expected to be feedback at a national level in terms of reporting on the accounts during 2016/17.
- The capital programme slippage in 2015/16 had been a consequence of the delayed start on the new Anderson High School and Halls of Residence project. The scale of the project, the need to extend timescales as negotiations took place and the challenge of the European standards of accounting for projects across the UK had all delayed the project start, and profiling of spend had to be rescheduled.

During the discussion some Members advised that they welcomed the positive report from Audit Scotland.

During debate, the Chair commented on the very favourable Audit report, and he thanked officers and the team in Audit Scotland for their hard work and endeavours to present the report today. He reported on changes in terms of financial spending during his time in the Council, and paid tribute to the officers and Members for the work undertaken to get the situation under control. He advised however of his concerns in terms of the funding reductions to Local Authorities, and that difficult decisions will have to be made going forward to find substantial savings, which he acknowledged will be a huge task for officers and the new Members.

Decision:

The Committee noted Audit Scotland's Annual Audit Report on the 2015/16 Audit.

19/16 **Shetland Islands Council – Final Audited Annual Accounts 2015/16**

The Committee considered a report by the Executive Manager – Finance (F-057-F), which presented the 2015/16 final audited Annual Accounts for Shetland Islands Council.

In introducing the report, the Executive Manager – Finance advised on Audit Scotland's opinion that the accounts provide a true and fair view, being prepared in accordance with the various accounting legislation and practice. He highlighted to Members the key information on the annual accounts, outlined in Section 3.4 of the report.

In response to a question, the Executive Manager – Finance stated that there was no particular reason for Shetland to have received the largest reduction in Scottish Government funding of 5.1% from 2015/16, being the largest reduction seen by any Scottish Council. He went on to explain the very complex formulas used by the Scottish Government to determine the final settlements to each Local Authority. He did highlight that Shetland's population is a major factor in the formula. In that regard a request was made for further information on where Shetland sits on national population. The Executive Manager – Finance said that population information was available and could be reviewed to better support the Council's position.

In response to a comment relating to the Section "Assurance from Internal Audit" at page 23, the Executive Manager – Audit, Risk and Improvement advised on the audit process that is followed, confirming that the audit issues identified are monitored by the Internal Audit Service.

During the discussion, questions were raised in terms of the ongoing review of the Landfill Allowances Scheme, as outlined at Section 1.18 of the report, and the implications to Shetland in that regard. The Chair of Environment and Transport Committee gave assurance on the work being undertaken in this area, which will form part of a forthcoming Members' Seminar. He advised on the unique situation Shetland in terms of landfill and confirmed that the issue of penalties has been suspended at this time.

Decision:

The Committee noted the Shetland Islands Council audited Annual Accounts for 2015/16.

(Mr Duncan left the meeting and Ms Westlake assumed the Chair).

20/16 **Shetland Islands Council Pension Fund – Annual Audit Report on the 2015/16 Audit**

The Committee considered a report by the Executive Manager – Finance (F-058-F), which presented Audit Scotland's Annual Audit Report on the 2015/16 Audit.

The Executive Manager – Finance introduced the report.

Mr McConnell, Audit Scotland, advised that there were no adjustments of significance to report and he informed on the clear audit certificate. He reported from the key messages as outlined on Page 3 of the Audit Report, and said that overall it was a positive report, where the challenges ahead will be common to all Pension Funds. Mr McConnell thanked the staff in Finance for their assistance in carrying out the audit.

In response to a question, Mr McConnell said that Audit Scotland had no specific issues in terms of the return on investments of 1% against a target of 2%, where he said that performance has to be considered over the longer-term.

The Vice-Chair commented on the positive report and thanked the team at Audit Scotland and the Executive Manager – Finance and his staff for the work involved.

Decision:

The Committee noted Audit Scotland's Annual Audit Report on the 2015/16 Audit.

21/16

Shetland Islands Council Pension Fund - Final Audited Accounts 2015/16

The Committee considered a report by the Executive Manager – Finance (F-059-F), which presented the 2015/16 final audited Annual Accounts.

In introducing the report, the Executive Manager – Finance drew attention to the key messages of the accounts as set out Section in 3.4. He advised on the reasonably positive position of the Pension Fund at the end of the last financial year, and on the long term approach to investments working towards the strategy to reach a fully funded position by 2027.

In response to questions, the Executive Manager – Finance advised how the Pension Fund, being 92% funded compares nationally, where it was noted that Funds range from approximately 82% funded, to the highest being 110% funded. He added that each Pension Fund will have to deal with different circumstances and follow their individual Strategy.

During the discussion, clarity was sought in terms of the Committee's role in the scrutiny of the Pension Fund. The Executive Manager – Finance said that the Audit Committee's role in terms of decision making and scrutiny of the Pension Fund would form part of the review of governance arrangements

Decision:

The Committee noted the Shetland Islands Council Pension Fund audited Annual Accounts for 2015/16.

(Mr Duncan returned to the meeting and assumed the Chair).

22/16

Zetland Educational Trust - ISA 260 Report on the 2015/16 Audit

The Committee considered a report by the Executive Manager – Finance (F-060-F), which presented Audit Scotland's ISA 206 Report on the 2015/16 Audit.

The Executive Manager – Finance introduced the report.

Ms Fraser, Audit Scotland, advised that in terms of the ISA 260 Report, there were no significant issues to report to Committee, and she confirmed the unqualified audit opinion on the accounts.

Decision:

The Committee noted Audit Scotland's ISA 260 Report on the 2015/16 Audit.

23/16

Zetland Educational Trust - Final Audited Accounts 2015/16

The Committee considered a report by the Executive Manager – Finance (F-061-F), which presented Zetland Educational Trust's 2015/16 audited Annual Accounts.

The Executive Manager – Finance introduced the report. He advised that the review of the Trust would progress to seek a better rate of return within the constraints of the Constitution, which will be reported to a future meeting of the Education and Families Committee.

Decision:

The Committee considered the Zetland Educational Trust's audited Annual Accounts for 2015/16.

The Chair thanked Mr McConnell and the Audit Scotland team for their work over the term of their contract and wished them well for the future. The Committee concurred.

The meeting concluded at 11.25am.

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Chair