

MINUTES

A&B

Special Audit Committee
Council Chamber, Town Hall, Lerwick
Tuesday 20 September 2017 at 10am

Present:

J Fraser C Hughson
S Leask A Manson
R McGregor I Scott
R Thomson

Apologies:

A Duncan C Smith

In attendance (Officers):

J Belford Executive Manager – Finance
C McIntyre, Executive Manager – Audit, Risk and Improvement
J Riise, Executive Manager – Governance and Law
C McCourt, Financial Accountant
P Wishart, Solicitor
L Geddes, Committee Officer

Also:

M Clark, Deloitte LLP
P Kenny, Deloitte LLP
C Watt, Deloitte LLP

Chairperson

Ms Hughson, Vice-Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

11/17 Annual Audit Report on the 2016/17 Audit – Shetland Islands Council and Zetland Educational Trust

The Committee considered a report by the Executive Manager – Finance (F-079-F), which presented the findings of the 2016/17 audit.

The Executive Manager – Finance summarised the main terms of the report, advising that this was the first year of five that Deloitte LLP would be carrying out as the external auditor. He was pleased to report that Deloitte LLP had confirmed their unmodified opinion, meaning that the accounts were free from material misstatement and presented a true and fair view of the Council's financial position. He thanked staff for the work they had undertaken during the process, and he

looked forward to continuing to build on the working relationship with Deloitte LLP over the next four years.

Mr Kenny then introduced the Annual Audit Report to Members, outlining the responsibilities of the auditors, and advising that it was Deloitte LLP's opinion that the financial statements presented a true and fair view. No significant issues had been identified, and Deloitte LLP were issuing an unmodified audit opinion. In terms of the projected funding gap, it was noted that the Council planned to maximise other income streams and identify cost savings, and this would be monitored over the next five years to see if the Council delivered on this. He was pleased to report that the budgeting process was detailed and robust, and he commended the Executive Manager – Finance for work done on the financial strategy, which was of a very high standard. Governance arrangements were working effectively and there was strong evidence of scrutiny. A Deloitte recommendation was that the Council should adopt an overarching vision which was shared by its community partners, and that this should be supported by a single set of priorities and aims, with performance indicators that clearly linked to these priorities.

Mr Clark then took Members through the financial statements, and advised that there were no material issues. There had been one adjustment, which was immaterial, and no other significant issues or adjustments were required. Some suggestions had been made as to how the process could be improved, and he highlighted in particular the property valuation process. The assumptions the Council used to determine the position of pension liabilities were reasonable, albeit prudent.

Ms Watt then outlined the wider scope elements of the audit, referring to the medium term financial plan, and the capital and investment plans which linked into this. It was noted that the usable reserves balance had increased, and that the Council had made significant savings over the last six years. But there had also been an increase in demand which put a strain on funding, so consideration would have to be given to the transformation of services. Deloitte LLP was satisfied that in terms of monitoring, adequate systems of internal control were in place, and it was important that resources were in place to carry out any investigations early on. She highlighted that in terms of the health and social care partnership, it was being recommended that the Integration Joint Board develop a medium-term financial plan, in line with what was in place in the Council and the NHS.

Mr Kenny, Mr Clark and Ms Watt then responded to questions, and the Committee noted the following:

- It was being recommended that Members take a more active role in respect of the business transformation agenda, and this was something that the Committee had already considered. However it had been raised as another local authority had recently been criticised by Audit Scotland for lack of evidence that its members had been involved in business transformation.
- Making the same financial cut across all Council departments was felt to be a blunt instrument which would probably not be sustainable in the medium to long term. The Council instead required to consider the need to transform delivery of services.

- It was not for auditors to comment whether or not it was time to use the reserves to fund spending – auditors were responsible for considering and reporting on financial sustainability. Deloitte LLP would be willing to be consulted on the future financial strategy and future spending proposals. As part of this they would consider spending plans, whether policies were sustainable, and whether there was an overreliance on reserves. Auditors were responsible for considering the parameters within the current financial envelope, and would highlight risk areas within this. There were currently no issues within the financial envelope, but future funding could not be commented on. If the Council did increase its spending, the role of the auditor was to consider the current financial envelope and medium to long term sustainability. The need for transitional change to free up budgets would be emphasised, and there was a reporting regime in place to link the impact of spend on key outcomes. Linking spend to outcomes was an area lots of councils could be doing more work on.
- The Council had good processes in place relating to the fraud risk, but this had been highlighted in order to ensure that appropriate resources were in place to ensure that the National Fraud Initiative information was acted upon on a timely basis.

During the discussion that followed, it was suggested that the time had now come for the Council to consider using its reserves in order that there was additional funding available for social care. However other Members illustrated how the prudent spending over the last six years had enabled the Council to come to a more sustainable financial position.

The Executive Manager – Finance pointed out that the Council was already using its reserves to the tune of £14million every year to top up government funding. The Council had made a positive step forward in terms of considering projects/changes in line with the business case approach, and would continue to look at the way it used its money and the impact that any new decisions would have on the financial position in future.

He went on to reassure Members that across the board cuts had not been the sole approach taken to balance the books over the last few years. There was recognition that there underspends had allowed efficiencies to be driven in all parts of the organisation, and work would continue to identify efficiencies where they arise. However the Council did need to seriously address service redesign and different ways of delivering things.

In response to a query, he confirmed that this was the first year in the accounts where the income and expenditure statement had been amended to better reflect the way that the Council was organised. As a result, social work and education costs were no longer listed separately, but this better reflected what was reported and monitored via the Education and Families Committee. The Council would also have to undertake completion of the local finance return which broke services down further, so that there was consistent reporting across the country.

Members thanked the Executive Manager – Finance and his staff for their work in helping to secure such a positive report.

On the motion of Mr McGregor, seconded by Mr Leask, the Committee approved the recommendations in the report.

Decision:

The Committee:

- noted the findings of the 2016/17 audit as contained in the external auditor's annual report
- noted the agreed Action Plan as outlined in the Annual Report
- considered a verbal report by the external auditor
- considered the audited Annual Accounts for 2016/17 for Shetland Islands Council
- considered the audited Annual Accounts for 2016/17 for Zetland Educational Trust

12/17

Annual Audit Report on the 2016/17 Audit – Shetland Islands Council Pension Fund

The Committee considered a report by the Executive Manager – Finance (F-080-F), which presented the findings of the 2016/17 audit.

The Executive Manager – Finance summarised the main terms of the report, advising that it was a very positive report with no adjustments or actions.

Ms Watt outlined the scope of the audit, and advised that there were no adjustments required, other than a recommendation that the reviews of the reports and information sent to the Actuary were signed by way of dated signature, so that evidence of the control could be obtained.

On the motion of Mr Fraser, seconded by Mr Thomson, the Committee approved the recommendations in the report.

Decision:

The Committee:

- noted the findings of the 2016/17 audit, as contained in the external auditor's Annual Report
- considered a verbal report by the external auditor
- considered the audited Annual Accounts for 2016/17 for Shetland Islands Council Pension Fund

The meeting concluded at 10.55am

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Chair