Executive Manager: Jan-Robert Riise
Director: Christine Ferguson

Governance and Law
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If calling please ask for
Louise Adamson
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Date: 30 January 2018

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Council Chamber, Town Hall, Lerwick
Wednesday 7 February 2018 at 2pm

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Mr A Duncan
Vice-Chair: Ms C Hughson

AGENDA

(a) Hold circular calling the meeting as read.

(b) Apologies for absence, if any.

(c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

(d) Confirm the minutes of the meeting held on 14 December 2017 (enclosed).

Items	
1.	Annual Audit Plans 2017/18 for Shetland Islands Council and Shetland Islands Council Pension Fund *F-001*
2.	Six-Monthly Internal Audit Progress Report 2017/18 *IA-01-18*
3.	Scottish Household Survey *IA-02-18*

Shetland Islands Council	Agenda Item 1

Meeting(s):	Audit Committee	7 February 2018
Report Title:	Annual Audit Plans 2017/18 for Shetland Islands Council and Shetland Islands Council Pension Fund	
Reference Number:	F-001-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 The Committee is asked to NOTE the contents of the Audit Plans 2017/18 for Shetland Islands Council (Appendix 1) and Shetland Islands Council Pension Fund (Appendix 2) from the Council's external auditors, Deloitte LLP.

2.0 High Level Summary:

2.1 The Annual Audit Plans detailed at Appendix1 and Appendix 2 provide information on the work that external auditors will undertake to review and assess the governance and performance of the Council and Pension Fund in 2017/18.

3.0 Corporate Priorities and Joint Working:

3.1 The audit process plays a key role in helping the Council to maintain good governance, accountability and provides assurance around financial stewardship.

3.2 There is a specific objective in the Corporate Plan to ensure that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.

4.0 Key Issues:

4.1 The Annual Audit Plans present the planned audit work by the Council's external auditors, Deloitte LLP, for the 2017/18 financial year; the second year of a five-year appointment. Their core audit work includes:

- providing the **Independent Auditor's Report** on the annual accounts (and any assurance statement on whole of government accounts);
- providing the **annual report** on the audit addressed to the Council and the Controller of Audit;
- communicating **audit plans** to those charged with governance;
- providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code;
- preparing and submitting **fraud returns** to Audit Scotland, where appropriate;
- identifying significant matters arising from the audit, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required;
- undertaking work requested by Audit Scotland or local performance audit work;

- certifying all **grant claims** submitted by the Council that have been approved for certification by Audit Scotland;
- discharging our responsibilities in connection with the Council's publication of **Statutory Performance Indicators** in accordance with the Account Commission 2015 Direction;
- setting out an outline **five-year plan** for auditing Best Value;
- reporting on the Council's progress in implementing existing **Best Value improvement plans** where requested; and
- providing existing evidence and intelligence for, and participate in, **Shared Risk Assessment** processes leading to the preparation of a Local Scrutiny Plan for the Council and a national scrutiny plan; and
- providing an opinion on the Annual Report and Financial Statements of **Zetland Educational Trust** and reporting to the trustees.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	The Shetland Islands Council and the Shetland Islands Council Pension Fund are required to prepare accounts in accordance with the Local Government (Scotland) Act 1973 and the Code of Practice on Local Authority Accounting 2017/18.
6.5 Finance:	The audit fee for 2017/18 for Shetland Islands Council is £211,741 and the fee for Shetland Islands Council Pension Fund is £29,486. The work will also include the audit of Zetland Educational Trust at an additional fee of £400.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	The annual audit work is focused on identifying and assessing the key challenges and risks to the Council and the Pension Fund in order to mitigate future risk.
6.10	The Audit Committee has terms of reference to be consulted on the external audit strategy and plan, review reports from the

Policy and Delegated Authority:	Council's external advisors and review action on external audit recommendations.	
6.11 Previously considered by:	n/a	n/a

Contact Details:
Jonathan Belford, Executive Manager - Finance
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Jonathan.Belford@shetland.gov.uk
7 February 2018

Appendices:
Appendix 1 – Shetland Islands Council Annual Audit Plan for 2017/18
Appendix 2 – Shetland Islands Council Pension Fund Annual Audit Plan for 2017/18

Deloitte.

Shetland Islands Council

Shetland Islands Council

Planning report to the Audit Committee on the audit for the year ending 31 March 2018

7 February 2018

Deloitte Confidential: Public Sector

Contents

01 Planning report

02 Technical update

03 Appendices

Deloitte Confidential: Public Sector

Planning report

Director introduction
The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our draft planning report to the Audit Committee of Shetland Islands Council (the Council) for the year ending 31 March 2018 audit. We would like to draw your attention to the key messages of this draft audit plan:

Audit Plan

We have updated our understanding of the Council, including discussion with management and review of relevant documentation from across the Council as well as Audit Scotland performance audit reports published during the year.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 16.

- In accordance with auditing standards, we have identified a significant risk associated with income. This risk is pinpointed to the recognition of grant income (excluding revenue support grant), given the judgement involved in recognition of income and compliance with grant conditions and the potential for clawbacks.
- In accordance with auditing standards, management override of controls has also been identified as a significant audit risk.
- Given the quantum of and complexity associated with the revaluation of property, plant and equipment, this has been identified as a significant audit risk.

Director introduction (continued)

The key messages in this report (continued):

Audit Dimensions

- The 2016 Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the Council is addressing these and report our conclusions in our annual report to the Audit Committee in September 2018. In particular, our work will focus on:

  - ***Financial sustainability*** – The Council continues to face significant financial challenges moving forward. However, for the current year, the overall 2017/18 forecast position as at 30 September 2017 is projecting an underspend of £2.4m in its updated revenue budget and £4m underspend in its capital budget. The Council is currently on track with its Medium Term Financial Plan, with the draw on reserves being less in the current year than in the plan, due to underspends carried forward from 2016/17.

  - The Council anticipates that there will be further significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years, simultaneously the Council will have to manage an ever increasing demand for Council services and manage cost pressures that apply to the models of service delivery (with the Council forecasting a £20m funding gap by the end of 2021/22). Although budgets have reduced in recent years to move the Council to a position where it is closer to a sustainable footing, Shetland Islands Council is still able to provide some of the highest level of funded services to the public of any local authority in Scotland.

  - We will monitor the Council's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if investment is effective.

  - We will also review the Council's Business Transformation Plan and Local Outcomes Improvement Plan – including progress made against these plans and the expected progress to be made going forward. We will also review the impact these plans are expected to have on the Council's ability to provide continuity of services.

  - ***Financial management*** – We will review the budget and monitoring reports to the Council during the year and liaise with internal audit in relation to their work on the financial control environment to assess whether financial management and budget setting is effective. From our audit work in 2016/17 we found that the Council had acceptable financial management procedures in place, however, there remains a risk that a lack of appropriate financial management could result in the Council not achieving its financial targets.

Director introduction (continued)

The key messages in this report (continued):

- ***Governance and transparency*** – From our review of Council papers and attendance at Audit Committee meetings we will assess the effectiveness of governance arrangements. We will also review the governance arrangements in relation to the Integrated Joint Board (IJB). As the IJB is still relatively new and has significant challenge around long term financial sustainability, there is a risk that the governance arrangements between the Council and the IJB (and the partner NHS Board) are not effective.

- We are aware that the Chief Executive is leaving post in January 2018, with interim arrangements requiring to be put in place until a permanent replacement can be found. We will review these arrangements to ensure that appropriate governance remains in place at the Council during this period.

- ***Value for money*** – From our 2016/17 audit work we concluded that the Council had a well established performance management framework in place, with performance regularly considered by management and the Council. During 2017/18 we will review how the Council is addressing areas where targets are not being met and also how the implementation of the Business Transformation Plan is impacting on how the Council's performance is measured and reported. There is a risk that insufficient resources are targeted to areas of under performance.

Strategic Audit Priorities

As part of our best value work, we will consider the five Strategic Audit Priorities agreed by the Accounts Commission and update our assessment of the baseline position of the Council's performance established in 2016/17 against these priorities.

We will assess how effectively the Council undertakes transformational change, and whether savings targets arising from 'Spend to Save' programmes are achieved.

Other wider scope work

We will continue to monitor the Councils participation and progress with the National Fraud Initiative (NFI) during 2017/18 and complete an Audit Scotland audit questionnaire by 28 February 2018.

In accordance with Audit Scotland guidance, we will be requested to provide information to support national performance audits on Digital and Health and Social Care Integration.

Director introduction (continued)

The key messages in this report (continued):

Regulatory Change

There are limited changes this year affecting the audit, either through the Code of Practice on Local Authority Accounting or statutory guidance.

The introduction of MIFID2 in the year has required a substantial amount of work on the part of the Council in order to maintain its status as a 'professional' investor, rather than being reclassified as 'retail'. However, we are aware that all investment managers and other relevant parties have supported the Council's position and that it will therefore maintain its status and we do not expect that there will be any requirements, therefore, for the Council to amend its investment portfolio or strategy.

We would highlight that new accounting standards on financial instruments will apply from 2018/19, and for leases from 2019/20 and it is important that the Council considers their impact ahead of implementation. See pages 32-35 for more details.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Adding value

Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice.

In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Pat Kenny
Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

The primary purposes of the Auditor's interaction with the Audit Committee are to:

- Clearly communicate the planned scope of the financial statements audit.
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process.
- In addition, we seek to provide the Audit Committee with additional information to help fulfil your broader responsibilities as highlighted on this page.

Target icons throughout the document highlights key information which should be a focus of interest for the Audit Committee.

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Implement a policy on use of the external auditor for non-audit services and approve if arise.

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.

- Review the external audit findings, key judgements and level of misstatements.

- Assess the quality and capacity of the internal team and their incentives.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems.

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

-Oversee the work of the Council's local counter fraud service.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Council and your strategy

Identify changes in your Council and environment

The Council continues to face significant financial pressures due to an increase in costs and reduction in funding, whilst facing increased demand for services.

The integration of health and social care also continues to be a challenge, as discussed on page 11.

Scoping

Our scope is in line with the Code of Audit Practice issued by Audit Scotland.

More detail is given on page 14.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Identify Changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Determine materiality

We have determined a materiality of £3,027k (2016/17: £3,028k) with a performance materiality of £2,270k (2016/17: £2,271k). This is based on gross expenditure less IJB contribution, consistent with the basis used in the prior year. We will report to you any misstatements above £151k (2016/17: £150k). We have kept this level constant at 5% based on our current methodology. More detail is given on page 13.

Significant risk assessment

We have identified significant audit risks in relation to the Council, specifically: recognition of non-ringfenced grant income; management override of controls, and valuation of property assets. This is consistent with the prior year. More detail is given on page 16 to 19.

Quality and Independence

We confirm all Deloitte network firms are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Continuous communication and reporting
Planned timing of the audit

Planning	Interim	Year end fieldwork	Reporting
• Planning meetings to inform risk assessment and identify judgemental accounting issues. • Update understanding of key business cycles and changes to financial reporting. • Document design and implementation of key controls. • Review of key Council documents including Council and Committee minutes. • Planning work for wider scope responsibilities.	• Update planning procedures for any changes in the interim period – refresh our risk assessment, understanding of business cycles and financial reporting. • Initiate substantive audit procedures addressing the significant risk around management override of control. • Initiate audit procedures for wider scope responsibilities, including Strategic Audit Priorities and Best Value.	• Audit of grant claims. • Audit of charity. • Review of draft accounts. • Substantive testing of all material areas. • Finalisation of work in support of wider scope responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks. • Review of SPI arrangements.	• Final Audit Committee meeting. • Issue final Annual Report to the Council and the Controller of Audit. • Issue audit report and submission of audited financial statements to Audit Scotland. • Issue audited Whole of Government Accounts (WGA) • Audit feedback meeting. • Submit Best Value data return • Submission of remaining certified grant claims.
2017/18 Audit Plan	Final report to the Audit Committee		
December 2017	**Feb/ March 2018**	**June – August 2018**	**September 2018**

Audit Team

Pat Kenny, Audit Director

Karlyn Watt, Senior Manager

James Corrigan, Manager

Conor Healy, Field Manager

Ongoing communication and feedback

Deloitte Confidential: Public Sector

An audit tailored to you

Focusing on your business and strategy

	Impact on our audit
Future financial strategy and sustainability	Shetland Islands Council continues to face significant financial challenges, with a projected funding gap of £20 million by the end of 2021/22. However, the overall 2017/18 forecast position as at 30 September 2017 is projecting an underspend of £2.4m in its updated revenue budget and £4m underspend in its capital budget. The Council anticipates that there will be further significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years, simultaneously the Council will have to manage an ever increasing demand for Council services and manage cost pressures that apply to the models of service delivery. The Council's Medium Term Financial Plan was agreed in March 2017 and covers the period from 2016/17 to 2021/22. The aim of the plan is to help the Council approve annual budgets that are balanced and affordable in the medium term. The plan includes £20.5m of savings required from 2018/19 to 2021/22 to support maintaining the current level of usable reserves in line with the Council's reserves policy. There is a risk that the Council will not be able to achieve the savings required and larger draws on reserves could occur. This could impact on funding available for Council services and lead to the Council not being able to maintain outcomes. We note that the Council made a draw of £5.8 million from reserves in 2016/17, substantially below the £16.3m budgeted, and that the Council is currently forecasting an underspend in the current year also. There is also a risk that any slippages in the capital plan could impact on the Council's ability to deliver its objectives. We will monitor the Council's plans to achieve medium and long term financial sustainability.
Health and social care integration	2016/17 saw the first full financial year of Health and Social Care Partnership between NHS Shetland and Shetland Islands Council through the Integration Joint Board (IJB). As reported in our 2016/17 annual audit report to the IJB, the biggest risk facing the IJB was the projected overspend in 2017/18 and the efficiencies required over the next three years to achieve a balanced budget. It is critical that the Council work closely with the IJB and NHS Shetland Board to focus on implementing recurring savings through efficiencies or service redesign. We are aware that the funding gap for 2017/18 primarily rests with NHS Shetland, and that approximately half of the funding gap for 2017/18 has been bridged through redesign of mental health, pharmacy and GP services. We will continue to review the work being done both at the Council and the IJB to address the remaining funding gaps, including reviewing the work which the IJB has instructed NHS Shetland to carry out in identifying further redesign plans.

Considered as part of wider scope audit requirements

An audit tailored to you

Focusing on your business and strategy (continued)

	Impact on our audit
Local Government in Scotland – Financial Overview 2016/17	Audit Scotland published its annual overview report **Local Government in Scotland: Financial Overview 2017** in November 2017. It concluded that councils' financial challenges continue to grow and they are showing increasing financial stress. Throughout the report, Audit Scotland has identified examples of questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The key messages and example questions from the report are summarised on page 27. We will evaluate Shetland Islands Council against these as part of our wider scope work.

Considered as part of wider scope audit requirements

Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined materiality as £3,027k (2016/17: £3,028k) and a performance materiality of £2,270k (2016/17: £2,271k), based on professional judgement and risk factors specific to Shetland Islands Council, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecasted gross expenditure as the benchmark for determining materiality.
- This approach is consistent with our prior year materiality determination.

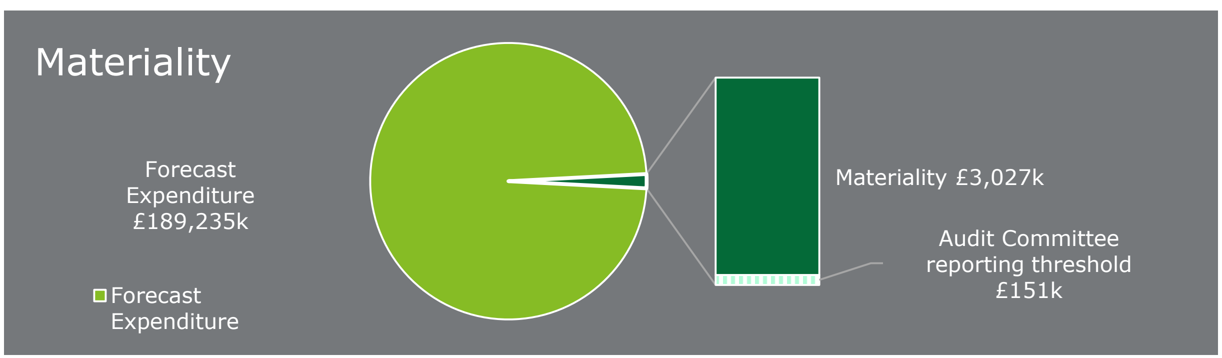
Reporting to those charged with governance

- We will report to you all misstatements found in excess of £151k (2016/17: £150k).
- We have kept this at 5% of materiality based on our current methodology.
- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial items above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

We will:

- Report the materiality benchmark applied in the audit of the Council;
- Provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- Explain any normalised or adjusted benchmarks we use, if appropriate.



Although materiality is the judgement of the audit director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Deloitte Confidential: Public Sector

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit

Our core audit work as defined by Audit Scotland comprises:

- Providing the **Independent Auditor's Report** on the annual accounts (and any assurance statement on consolidation packs);
- Providing the **annual report** on the audit addressed to the Council and the Controller of Audit;
- Communicating **audit plans** to those charged with governance;
- Providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in the NFI exercise);
- Preparing and submitting **fraud returns**, including nil returns, to Audit Scotland where appropriate;
- Identifying significant matters arising from the audit, alert the Auditor General for Scotland and support Audit Scotland in producing statutory reports as required;
- Undertaking work requested by Audit Scotland or local performance audit work;
- Certifying all **grant claims** submitted by the Council that have been approved for certification by Audit Scotland;
- Discharging our responsibilities in connection with the Councils publication of **Statutory Performance Indicators (SPIs)** in accordance with the Account Commission 2015 Direction;
- Setting out an outline **five year plan** for auditing Best Value (BV);
- Reporting on the results of follow-up on Councils progress in implementing existing **BV improvement plans** where requested; and
- Providing existing evidence and intelligence for, and participate in, **Shared Risk Assessment (SRA)** processes leading to the preparation of a Local Scrutiny Plan for the Council and a national scrutiny plan.

Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – looking forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management** – financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** - using resources effectively and continually improving services.

The Accounts Commission has reviewed its strategic planning arrangements and has agreed five **Strategic Audit Priorities** that will be built into audit expectations. The priorities are:

- The clarity of Council priorities and quality of long-term planning to achieve these.
- How effectively Councils are evaluating and implementing options for significant changes in delivering services.
- How Councils are ensuring members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- How well Councils are involving citizens in decisions about services and empowering local communities to identify and help deliver services they need.
- The quality of Councils' reporting of their performance to enhance accountability to citizens and communities.

Scope of work and approach (continued)
Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

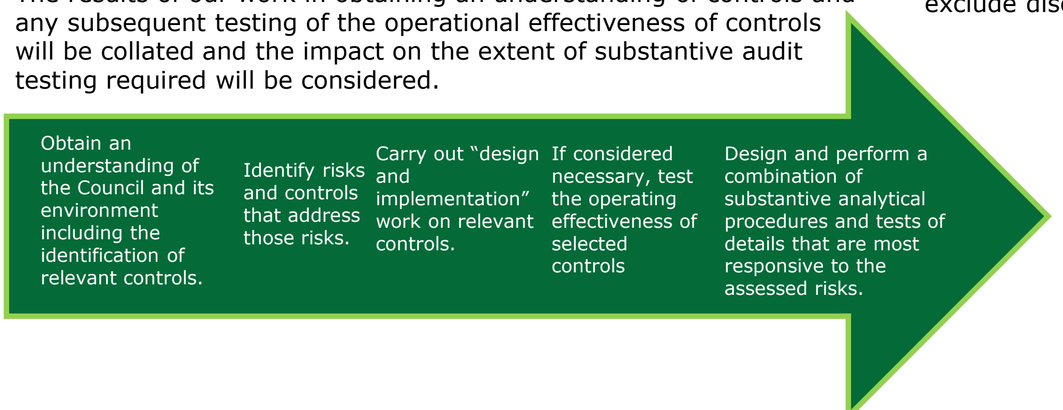
We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.



Consideration of group entities

In line with 2016/17, we expect Shetland Islands Council to consider the following as group entities: the Shetland Islands Integration Joint Board (IJB), the Orkney and Shetland Valuation Joint Board (VJB) and the Zetland Transport Partnership (ZetTrans).

We will confirm our understanding of any changes to the group structure at the year end audit.

These are all audited separately to the Council by us.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of Practice on Local Authority Accounting in the UK disclosure checklist to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Council complete during drafting.

The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the Council to exclude disclosure if the information is not material.

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Level of management judgement	Page no.
Recognition of grant income	✓	✓	Design and implementation	⚠	17
Management override of controls	✓	✓	Design and implementation	⚠	18
Valuation of property assets	✓	✗	Design and implementation	⚠	19

⚠ Some degree of management judgement

⚠ Limited management judgement

Significant risks (continued)

Risk 1 – Recognition of grant income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Council, as summarised in the table across, are non-ring fenced government grants and non-domestic rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is therefore pinpointed to the recognition of grant income (excluding non ring fenced government grants). Council tax, non-domestic rates, housing rent and trading services harbour income are set through the annual budget process, with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error.

Type of income	2016/17 (£m)	Significant risk
Taxation and Non-Specific Grant Income		
Council Tax income	8.5	
Non domestic rates	17.8	
Non ring fenced government grants	64.5	
Capital grants and contributions	4.8	✓
Service Income		
Grant income	6.4	✓
Housing benefit	3.1	
Housing rent	6.8	
Trading services (Harbours)	28.9	
IJB Commission income	20.4	
Other Service Income	30.4	

Our response

Grant income is a significant risk due to:

- Significant management judgement around determining if there are any conditions attached to a grant and if so whether the conditions have been met; and
- Complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

We will perform the following:

- Assess management's controls around recognition of grant income; and
- Test a sample of capital grants and contributions and grant income credited to Service Income and confirm these have been recognised in accordance with any conditions applicable.

Deloitte Comment

We are not aware of any issues arising which would impact on the accounting treatment of income recognition during the year. Additionally, we have completed our design & implementation work of management's controls around the recognition of income and have not identified any issues.

Significant risks (continued)

Risk 2 – Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

Risk identified	In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgments in the financial statements are manual journal entries. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will test journals, using our Spotlight data analytics tool, to focus our testing on higher risk journals; • We will review accounting estimates for bias that could result in material misstatements due to fraud; • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
Deloitte Comment	We have not identified in our prior year audit work any transactions which appear unusual or outside the normal course of business. We have completed our testing on the design and implementation of review controls around management override and noted no issues.

Significant risks (continued)
Risk 3 – Valuation of Property Assets

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation, with the exception of Council Dwellings which are required to be measured at existing use value – social housing.

The valuations are by nature quantitatively significant estimates – as shown in the table across – which are based on specialist and management assumptions and which can be subject to material changes in value.

	2016/17	2015/16
Total cost: Property, plant and equipment	£444m	£442m
Of which, property assets	£206m	£215m
%	46%	49%
Change in valuation in the year	(£9m)	(£8m)
% change	(4%)	(4%)

Our response

The Council held £206m of property assets at 31 March 2017, which accounts for approximately half of the Council's total property, plant and equipment.

We will perform the following:

- Review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- Test a sample of revalued assets and re-perform the calculation, assessing whether the movement has been recorded through the correct line of the accounts;
- Consider material changes of assets not subject to full revaluation during the year;
- Consider assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- Involve the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the Council's internal valuation specialist.

Deloitte Comment

We note that regular discussion has taken place with Shetland Islands Council and the internal valuation specialist. We are aware that in the current year, there is a vacancy within the valuation team as the Team Member (Assets & Properties) who performed the prior year valuation) is no longer in position and there has been difficulty in finding a suitable replacement. We will continue to liaise with the Council's Registered Valuer (Team Leader, Assets & Properties) – who is responsible for signing off on any valuations – in order to ensure that we are fully aware of any changes to the valuation process in the year or the controls over this process.

Wider scope requirements
Audit dimensions

The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Council is addressing these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2017/18 Audit
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	• The financial planning systems in place across the shorter and longer terms • The arrangements to address any identified funding gaps • The affordability and effectiveness of funding and investment decisions made • Workforce planning	From our work in 2016/17, we recommended that the Council considers how it can transform service delivery through its Business Transformation Plan (2016-20) to ensure that that the Council is able to provide services using only sustainable withdrawals from reserves. **Audit Risk:** There is a risk that the plans for efficiency and service redesign are not robust enough and not implemented effectively to allow the benefits to be realised. The Council have identified a significant funding gap by the end of 2021/22, which requires full implementation of the Medium Term Financial Plan and the obtaining of additional funding from the Scottish Government (for example, ferry funding) to bridge. **Audit Risk:** If the council does not receive increased funding or fails to fully implement the Medium Term Financial Plan, it may be unable to provide the level of services which it currently does, requiring the Council to consider which areas should be further prioritised.
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	• Systems of internal control • Budgetary control system • Financial capacity and skills • Arrangements for the prevention and detection of fraud	We will review the budget and monitoring reporting to the Council during the year to assess whether financial management and budget setting is effective. From our audit work in 2016/17 we found that the Council had sound financial management procedures in place. Our fraud responsibilities and representations are detailed on pages 39 and 40. **Audit Risk:** A lack of appropriate financial management could result in the Council not achieving its financial targets.

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Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Areas to be considered	Impact on the 2017/18 Audit
Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	• Governance arrangements • Scrutiny, challenge and transparency on decision making and financial and performance reports • Quality and timeliness of financial and performance reporting • Accountable officers' duty to secure Best Value	We will review the financial and performance reporting to the Council during the year as well as minutes of all Council and key Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at Audit Committees will also inform our work in this area. We will consider the arrangements in place for securing effective governance and engagement. Our audit work in 2016/17 found no issues. We will also review the governance arrangements in relation to the Council, being aware of interim arrangements which will be put in place following the departure of the Chief Executive in January 2018. as a permanent replacement will not immediately be in place. **Audit risk:** Failure to have appropriate leadership and governance in place at all times, or mitigating transitional arrangements, increases the risk that the Council will fail to deliver on its services, especially in times of difficulty.
Value for money is concerned with using resources effectively and continually improving services.	• Value for money in the use of resources • Link between money spent and outputs and the outcomes delivered • Improvement of outcomes • Focus on and pace of improvement.	From our 2016/17 audit work we concluded that the Council had a well established performance management framework in place, with performance regularly considered by management and the Council members. During 2017/18 we will review how the Council is addressing areas where targets are not being met and also how the implementation of the Business Transformation Plan is impacting on how the Council's performance is measured and reported. **Audit Risk:** There is a risk that insufficient resources are targeted to areas of under performance.

Wider scope requirements (continued)

Audit dimensions (continued)

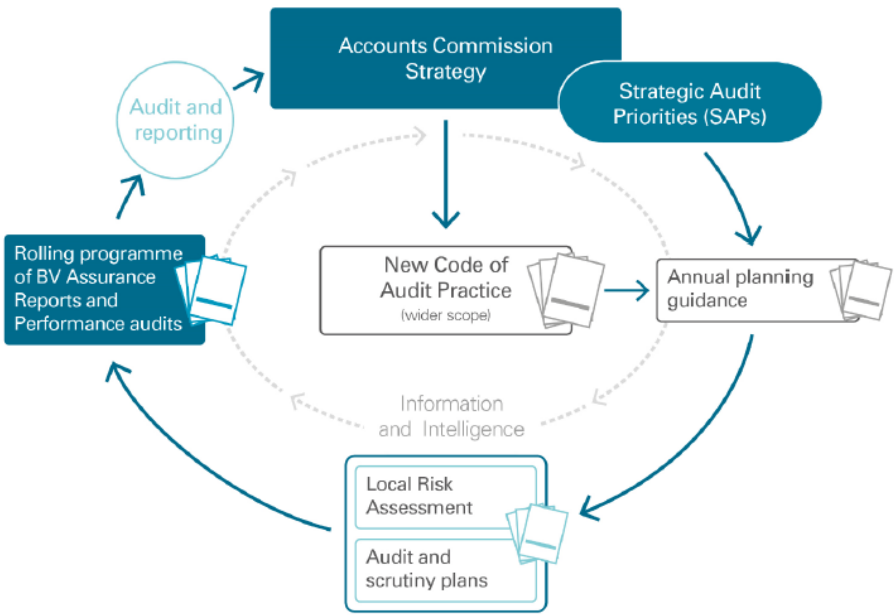
Audit dimension	Areas to be considered	Impact on the 2017/18 Audit
Value for money is concerned with using resources effectively and continually improving services. (Continued)		The Council regularly enters into new contracts for services, supplies and assets which must undergo a thorough due diligence process and comply with all relevant regulations. **Audit Risk:** Appropriate due diligence work may not be carried out. The Council opened Anderson High School in 2017. This has led to a planned demolition of the old high school. The Council expect that the value of the land which this is on will increase post-demolition. The Council have not yet decided how this space will be utilised. **Audit Risk**: The land may not be used in the interests of residents and may not be incorporated into future plans for Council transformation.

Wider scope requirements

Best value

In June 2016 the Accounts Commission formally agreed the overall framework for a new approach to auditing Best Value (BV). This framework introduced a five year approach to auditing BV. 2017/18 represents year two of the BV audit plan. Under this approach, the Controller of Audit will provide a Best Value Assurance Report (BVAR) to the Commission for each Council at least once in a five year period. The national five year BVAR programme is updated each year, reflecting changes to risk assessments identified from the SRA process or annual audits. Shetland Islands Council has not been identified for a BVAR report in 2017/18.

The audit planning framework is set out below.



In 2016/17, as well as assessing the Council's performance against the Strategic Audit Priorities (page 24), we considered the following key areas in relation to best value:

- Improvement
- Financial governance and resource management

In 2017/18, we will follow up on the above areas and also focus on the Council's arrangements for demonstrating Best Value in the following:

- Performance and outcomes
- Leadership, governance and scrutiny
- Partnership working and empowering communities

Our work will be integrated into our audit approach, including our work on the audit dimensions discussed on pages 20 to 22 and will be reported in our annual audit report.

In addition, to inform the Controller of Audit's Annual Assurance and Risk Report to the Accounts Commission, we will submit a data return covering our audit work by 1 October 2018.

Wider scope requirements (continued)

Strategic Audit Priorities

In its Strategy, which is updated annually, the Accounts Commission sets out an overall aim of holding Councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission also sets out five **Strategic Audit Priorities** that will be built into audit expectations, which are set out below.

Council Priorities and Long Term Planning

The clarity of Council priorities and quality of long-term planning to achieve these.

Changes in Service Delivery

How effectively Councils are evaluating and implementing options for significant changes in delivering services.

Members and officers knowledge, skills and support

How Councils are ensuring members and officers have the right knowledge, skills and support to design, develop and delivery effective services for the future.

Citizen involvement

How well Councils are involving citizens in decisions about services and empowering local communities to identify and help deliver services they need.

Quality of reporting

The quality of Councils' reporting of their performance to enhance accountability to citizens and communities.

During our 2016/17 audit, we worked with our colleagues in Performance Audit and Best Value ('PABV') to undertake a baseline assessment of the Council's position across these Strategic Audit Priorities, which was reported in our Annual Audit Report to the Audit Committee in September 2017.

During 2017/18, we will assess what progress the Council has made in each of these priority areas. The basis for this assessment will include interviews with key Members, senior officers and other personnel across the Council, observance of Committee meetings and review of documents such as the Council Corporate Plan, Medium Term Financial Plan, Council communications, consultations and performance data.

Wider scope requirements (continued)

Specific risks

As part of the 2017/18 planning guidance, Audit Scotland have identified the following areas as significant risks faced by the public sector. While we have not identified any specific risks in relation to these areas for the Council, we will continue to monitor these areas as part of our audit work.

Risk	
EU withdrawal	There remains significant uncertainty about the detailed implications of EU withdrawal. Nonetheless, given the potential timetables involved, it is critical public sector bodies are working to understand, assess and prepare for the impact on their business. Key aspects of this are likely to include three broad areas: - Workforce - Funding - Regulation We are aware that the Council has an 'EU Engagement and Brexit Sound Board' and we will consider the work completed by this Board as part of our year end audit procedures.
New Financial Powers	The provisions of the 2012 and 2016 Scotland Acts and the accompanying Fiscal Framework agreement are leading to fundamental changes to the Scottish public finances. New tax raising, borrowing and social security powers provide the Scottish Parliament with more policy choice, but also mean the Scottish budget is subject to greater volatility, uncertainty and complexity. There is also a stronger link between the performance of the Scottish economy (relative to the rest of the UK) and available funding. The changes are likely to impact across public sector bodies to varying degrees, both directly (for example where an organisation's activities include additional responsibilities as a result of the new powers) and indirectly (for example as a result of potential changes to the way the Scottish Government manages its overall budget).

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Ending of public sector pay cap	Pay increases in the public sector have been frozen and then capped at 1% for seven years. Politicians in both Westminster and Holyrood are talking about ending the public sector pay cap. When introducing the Programme for Government 2017-18, the First Minister confirmed that the Scottish Government will lift the 1% public sector pay cap. All public bodies need to consider the potential impact of the ending the pay cap as they prepare their budgets and consider their financial sustainability.
Response to cyber security risks	Audit Scotland will issue further guidance in relation to this risk, setting out the risk context for public bodies, the new cyber resilience requirements being introduced by the Scottish Government and questions that auditors can pose to bodies to understand the risk and mitigating action in a local context. We will share this with management when this is available.
Openness and transparency	There are signals of changing and more challenging expectations for openness and transparency in public business. In view of this direction of travel, Audit Scotland noted that 2016/17 annual audit reports highlighted the need for public bodies to keep this area under review and to consider whether there is scope to enhance transparency.

Wider scope requirements (continued)

Local Government in Scotland: Financial Overview 2016/17

Audit Scotland published its annual overview report **Local Government in Scotland: Financial Overview 2017** in November 2017. It concluded that Councils' financial challenges continue to grow and they are showing increasing financial stress. Throughout the report, Audit Scotland have identified examples of questions that councillors may wish to consider to help them better understand their Council's financial position and to scrutinise financial performance. The key messages from the report are summarised below. We will evaluate Shetland Islands Council against these as part of our wider scope work.

Key messages

1 Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.

2 Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at levels planned for 2017/18.

3 Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.

4 Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.

5 All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.

6 The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

Example Questions for councillors to consider

Part 1 - Councils' income and budget 2016/17

- Does your Council have a charging policy? Is this in line with corporate plans and objectives?
- What information do you need to be able to explain increases in fees and charges to your constituent?

Part 2 - 2016/17 financial performance

- How does the Council ensure that council staff have the capacity to deliver transformational change?
- What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services? What are the level of reserves held by your Council's IJB? Are these in line with the IJBs reserves policy?

Part 3 – Financial Outlook

- How is your Council preparing for any further real term reduction in Scottish Government funding?
- If your Council plans to raise council tax, do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?
- Does your Council have a savings plan? What are the options to close future gaps?
- What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?
- What is your Council's financial position? What particular challenge does it face?
- Does your Council have a medium term financial strategy aligned with corporate objectives?
- What impact will savings have on the delivery of services? What are the potential risks?
- What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?
- What measures in the Council's corporate and transformational plans are aimed at addressing the underlying demand for services.

Note: The full list of questions are available in **Supplement 1: Scrutiny tool for councillors**, available on Audit Scotland's website.

Wider scope requirements (continued)

NFI, Performance audits and impact reports

National Fraud Initiative (NFI)

All Councils participated in the NFI 2016/17. All data was submitted in October 2016 and Councils received matches for investigation in January 2017. Audit Scotland expected bodies to investigate all recommended matches based on findings and the risk of error or fraud. Match investigation work was largely completed by 30th September 2017 and the results recorded on the NFI system.

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation and progress during 2016/17 and 2017/18 and complete an NFI audit questionnaire by 28 February 2018. The information contained in this questionnaire will be used for Audit Scotland's NFI report to be published in June 2018. When our 2016/17 audit report was presented, investigation results were still to be posted in the NFI system and a review of matches had not yet been completed, however plans were in place to complete this. We noted in our planning work at December 2017 that all investigations had been posted and reviews completed, with no significant findings to report.

Performance Audits

In accordance with Audit Scotland planning guidance, we will be requested to provide information to support performance audits on the following subjects during the year:

Performance audit title	Appointed auditor input
Digital – cross cutting	No formal return. Audit Scotland will provide information and guidance on current issues and risks to consider as part of planning process.
Health and social care integration part 2 – publication Autumn 2018	There is a requirement for a minimum data set in support of this audit. Specific requirements will be confirmed, however, it will encompass information such as: timescales for agreeing budgets; shifts in resources from acute to community-based care; progress in agreeing budgets and publishing meaningful strategic plans, and governance arrangements.

Impact reports

We will be requested to provide information to support Audit Scotland's PABV team in assessing the impact of the following performance audits during 2017/18: Changing models of health and social care; Roads maintenance follow-up; Social work in Scotland, and Supporting Scotland's economic growth.

Audit Quality
Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the health sector and elsewhere to provide robust challenge to management.

We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the Council.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Pat Kenny, Audit Director. This is a Director led programme encouraging teams from across our practice to engage and discuss current sector and audit issues, sharing best practice and expertise. This is in addition to a practice wide local government training day held prior to the end of the financial year to share key issues from across the country, to update on regulatory changes and provide early warning of issues other teams may have faced at the interim testing phase.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

22 January 2018

Technical update

Information on sector developments

IFRS 9 *Financial Instruments*

In a nutshell

- In July 2014, the IASB published a final version of IFRS 9. This version supersedes all previous versions.
- IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement*, and has three main impacts
    - *Classification and measurement* - introduces new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis.
    - *Amortised cost and impairment of financial assets* – introduces an "expected losses" impairment model where entities are required to account for expected credit losses from when financial instruments are first recognised.
    - *Hedge accounting* - introduces new general hedge accounting model that aligns the accounting treatment with risk management activities and allows for better reflection of the hedging activities in the financial statements.
- The key practical change in IFRS 9 for most Councils is the introduction of a new approach to recognising impairments of debtors and other financial instruments. Given the Council's high level of investments, this will have a wider impact, discussed on the next slide.
- CIFPA/ LASAAC has advised that representatives from central and devolved governments, including the Scottish Government, have confirmed that they would be willing to consider representations from local authorities for a statutory mitigation.

Potential impact on the Council

Please see discussion of the main areas which are likely to be of concern to the Council on the following page.

Effective date

The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted.

CIPFA/ LASAAC has confirmed that it has approved the full adoption of IFRS9 into the accounting code and therefore will apply to local authority annual accounts from 2018/19.

Find out more on our website UK Accounting Plus:
https://www.iasplus.com/en-gb/standards/ifrs-en-gb/ifrs9

IFRS 9 *Financial Instruments* (continued)

Potential impact on the Council

Area	Key Consideration	Impact	Comment
Initial measurement of financial instruments	All measured at fair value (+/- transaction costs if not measured through FVTPL)	Minor	In most cases, this will remain as current.
Subsequent measurement of financial instruments	This can be either amortised cost or fair value. For fair value, all gains and losses are either recognised entirely in income & expenditure (FVTPL) or other comprehensive income (FVTOCI)	Major	Financial instruments which remain valued at amortised cost will not experience any major change. Investments (which could be significantly impacted) discussed below.
Equity instruments	These must be measured at FVTPL unless they are not held for trading, in which case an irrevocable election can be made to treat these at FVTOCI at initial recognition, with only investment income recognised in income & expenditure.	Moderate	As the Council's investments are not held for trading, the Council could elect to designate as FVTOCI and continue the current practice of recognising investment income in Income & Expenditure, with gains and losses continuing to be recognised in Other Comprehensive Income. If the Council does not make this election, all gains & losses will be recognised in Income & Expenditure moving forward.
Impairment of financial assets	A 'three stage' impairment model is introduced with a single method of calculating expected credit loss. The loss allowance is for either: 12 month expected losses; or lifetime expected losses (if credit risk has increased significantly since initial recognition).	Major	In this, IFRS 9 captures lease receivables, of which the Council has £26.2m as at 31 March 2017 (consisting of sub-leases and leases). The Council will need to consider 12 month credit loss on each of these and lifetime losses if the credit risk increase significantly during the lifetime of the lease.
Disclosures	The disclosure requirements of IFRS 7 have been amended to add disclosures regarding: investments in equity instruments designated as FVTOCI; risk management activities; credit risk management, and impairment.	Major	The Council will require to undertake work to ensure that appropriate disclosures are input into the financial statements.

IFRS 16 *Leases*

In a nutshell

- The new Standard supersedes IAS 17 *Leases* and its associated interpretative guidance.
- For lessees the distinction between operating and finance leases disappears.
- A lease conveys the right to control an identified asset for a period of time in exchange for consideration.
- The accounting for all leases is similar to finance lease accounting in IAS 17, which means all leases are recognised on the balance sheet (with some exceptions).
- The lease liability is measured at the present value of the future lease payments, using a lease term that includes periods covered by extension options if exercise is reasonably certain. Variable lease payments are only included in the liability if based on an index or rate.
- That right-of-use asset is initially measured at the amount of the lease liability, plus initial direct costs and adjustments for lease incentives, payments at or prior to commencement and dilapidations provisions.
- The right-of-use asset is subsequently accounted for by applying IAS 16 *Property, Plant and Equipment*, at cost less depreciation and impairment (unless it is an investment property that is fair valued or it belongs to a class of property, plant and equipment that is revalued).
- A lessee can elect to keep the following leases off-balance sheet and typically straight line the expense:
  - leases with a lease term of 12 months or less and containing no purchase option – this election is made by class of underlying asset; and
  - leases where the underlying asset has a low value when new, such as personal computers or small office furniture – this election is made on a lease-by-lease basis.
- Operating lease expenses, typically straight line, will be replaced with interest on the liability and depreciation of the asset, producing a front-loaded expense profile but boosting metrics such as EBITDA.
- Although any individual lease will have a front-loaded expense, portfolios of leases containing both new and mature leases may produce an overall expense profile similar to straight line expensing.

Effective date

Periods commencing on or after 1 January 2019.

CIPFA/ LASAAC have recently issued a consultation paper on proposals for the accounting code's adoption of IFRS 16 from 2019/20.

Find out more on our website UK Accounting Plus: https://www.iasplus.com/en-gb/standards/ifrs-en-gb/ifrs-16

Potential impact on the Council

Please see discussion on the following page.

IFRS 16 *Leases (continued)*

Potential impact on the Council

The Council has significant operating lease commitments – totalling £16.5m as at 31 March 2017 – and is a lessor with future expected minimum sub-lease receipts of £8.1m and lease receipts of £18.1m as at the same date.

The Council as lessee

For the operating leases where the Council is the lessee, this will involve recognition of these commitments as a 'right-of-use' asset (valued at commencement as the same as the lease liability plus any incidental costs to the lease) and lease liability (based on present value of future lease payments). This will obviously have a significant impact on the assets and liabilities of the Council, although not on the net assets. Following this, there will be a need to assess these leases for depreciation and impairment as currently undertaken for the Council's finance leases and other assets.

The Council as lessor

For those leases where the Council is the lessor, there is still the option to recognise leases as 'operating' rather than 'finance' (the definition of a finance lease has remained constant under the new standard, with all other leases being treated as operating). The Council should, however, consider each lease and determine if it is an operating lease or if it should be classified as a finance lease.

Insofar as the lease remains an operating lease, the Council can continue to recognise the lease income on a straight line basis (or other systematic basis if more representative of the payments received). The disclosure requirements for this will remain the same (i.e., disclosure of future expected minimum sub-lease and lease receipts).

If the lease is to be treated as a finance lease, an asset should be recognised based on the investment value and finance income recognised reflecting a periodic return on investment. This is currently the method used for the Council's current finance leases (at both Mareel and North Ness).

Effective date

Periods commencing on or after 1 January 2019. HMT is planning to adopt for 2019/20 in the public sector.

Find out more on our website UK Accounting Plus:
https://www.iasplus.com/en-gb/standards/ifrs-en-gb/ifrs-16

General Data Protection Regulation

The EU GDPR will come into effect from 25 May 2018, and will effectively supercede the existing Data Protection Act.

Issue

The EU General Data Protection Regulation ("GDPR") will come into effect in 2018, replacing the Directive that formed the basis for the Data Protection Act. The GDPR is expected to remain in effect for the foreseeable future, notwithstanding Brexit.

The key new concept is of "accountability" – being able to **demonstrate** compliance, with specific actions required with an evidence trail.

- Data Protection Impact Assessments are required for high risk processing of data, and there are specific requirements for transparency and fair processing of data. There are tighter rules where consent is the basis for processing data.
- There are requirements to keep records of data processing activities, with the removal of most charges for providing copies of records to patients or staff who request them.
- Penalties for breaches of the regulation are significantly higher than existing arrangements (up to €10m for data breaches and up to €20m for breaches of the principles), and apply to any breach of the regulation, not just data breaches.
- All public authorities, including the Council, are required to appoint a suitably qualified and experienced Data Protection Officer.
- There is a legal requirement to notify security breaches to the Information Commissioner within 72 hours.

Getting ready to comply with the GDPR can start with reducing the risk of the data breaches – and reducing that risk doesn't need to be complicated. The biggest causes of data breaches can be avoided by making sure the basics are in place: keep all operating systems and software up to date, implement encryption for sensitive data, and educate all employees about the risk of phishing and other social engineering attacks.

Your organisation might also consider the Cyber Essentials scheme and the 10 Steps to Cyber Security, both developed by Government to ensure any organisation can protect themselves from common cyber-attacks.

The Information Commissioner's Office has also developed a useful 12 step guide to help organisations consider their current data protection activities and what needs to be done to comply with the new regulations. They will be developing guidance over the coming months so keep an eye on their website for more information.

Deloitte View

Privacy as a concept is broad and far-reaching. The GDPR impacts many areas of an organisation, and is not just a legal/compliance issue. The GDPR brings specific rights to the public, including the "right to be forgotten" and data portability.

The emphasis on organisational accountability will require proactive, robust privacy governance. A key challenge is the need to identify a suitably qualified Data Protection Officer, with an estimated need for 28,000 DPOs across Europe.

The requirements will change how information technologies are designed and managed, with a requirement for documented privacy risk assessments when implementing major new systems, with "Privacy by Design" now enshrined in law.

The requirement to notify security breaches within 72 hours will require new or enhanced incident response procedures.

Teams tasked with information management will need to provide clearer oversight on data storage, journeys and lineage. Greater clarity on what data is collected and where it is stored will make it easier to comply with the new data subject rights.

Next steps

The Audit Committee should consider how it is obtaining assurance over the adequacy of the Council's action plans to ensure compliance with the GDPR.

Appendices

Prior year audit adjustments
Uncorrected and disclosure misstatements

Uncorrected misstatements

There were no uncorrected misstatements identified during the course of our prior year audit.

Disclosure misstatements

There were no uncorrected disclosure misstatements identified during the course of our prior year audit.

Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the achievement of expenditure resource limits and management override of controls as a key audit risk for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations
Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

Internal audit and Local Counter Fraud Specialist

- Whether internal audit and the Council's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2018 in our final report to the Audit Committee.

Fees

The audit fee for 2017/18, in line with the fee range provided by Audit Scotland, is £211,741, as analysed below.

	2017/18	**2016/17**
Auditor remuneration	143,441	148,786
Audit Scotland fixed charges:		
Pooled costs	12,140	11,780
Performance audit and Best Value	47,480	48,910
Audit support costs	8,680	8,080
Total Fee	211,741	217,556

In addition to the above, the fee for Zetland Educational Trust is £400.

Details of all non-audit services fees for the period will be presented in our final report.

Non-audit services

We continue to review our independence and ensure that appropriate safeguards are in place in relation to any non-audit services provided including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality
AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2017 the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2016/17 cycle of reviews.

The review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to identify the underlying cause. This provides insight which drives the developments in our quality agenda.

18 of the audits reviewed by the AQR were performed to a good standard with limited improvements required. We were disappointed that, despite the high standards we set and many areas of improvement in our quality record, the percentage of audits rated as requiring more than limited improvements has remained broadly similar to the previous year and that two reviews were identified as requiring significant improvement.

We have taken swift and decisive action to respond to the matters identified and will continue to monitor the implementation of these. We are firmly committed to achieving, and indeed exceeding, the FRC's objective that by 2019 90% of FTSE 350 audits reviewed will be assessed as requiring no more than limited improvements.

All the AQR public reports are available on its website.

The AQR's 2016/17 Audit Quality Inspection Report on Deloitte LLP

"We reviewed selected aspects of 23 individual audits in 2016/17. In selecting which aspects of an audit to inspect, we took account of those areas identified to be of higher risk by the auditors and Audit Committees, our knowledge and experience of audits of similar entities and the significance of an area in the context of the audited financial statements. The communications with the Audit Committee and the audit of revenue were reviewed on nearly all of these audits…"

"The firm has taken the actions they committed to take following our last inspection. Some of the issues driving more adverse quality assessments this year are in similar areas to those reported last year, although some audits reviewed were undertaken before these actions had been carried out. Our main concern continues to be the adequacy of audit teams' challenge of management in key areas of judgment (particularly goodwill impairment) and further immediate action is required to improve audit quality in this area.

The firm has enhanced its policies and procedures in the following areas:

- Strengthened the evidence of the Engagement Quality Control Review ("EQCR") partner and audit technical reviewer involvement.
- Updated Deloitte's audit methodology to include additional focus on risk assessment and the related audit response (effective from 31 December 2016 year-end audits).
- Introduced more focused coaching for audit teams throughout the audit process.
- Issued more timely and focused guidance and reminders to the audit practice on key audit matters, to facilitate appropriate consideration by audit teams at the key stages of the audit.
- Increased mandatory technical training for qualified staff through to partner level

Our key findings in the current year requiring action by the firm, which are elaborated further in section 2 together with the firm's actions to address them, are that the firm should:

- Improve the extent of challenge of management in key areas of judgment, in particular impairment reviews and valuation of acquired intangible assets.
- Strengthen the firm's audit of revenue recognition.
- Make further improvements to the audit of defined benefit pension scheme balances in corporate entities.
- Continue to seek to improve the consistency of the quality of communications with Audit Committees."

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Our approach to quality

Areas identified for particular attention	How we have addressed these as a firm	How addressed in our audit
Strengthen the firm's audit of revenue recognition.	A key theme of the enhancements to our methodology in 2016, (deployed after these engagements reviewed by the AQR were complete), was to enhance our risk assessment procedures and, as a result, encourage our auditors to develop more robust responses to the largest most critical account balances, with a natural focus on revenue. This included the removal of capped sample sizes for very large balances and facilitation of a combination of test of details and substantive analytical procedures to enable more comprehensive audit responses to be designed. This theme has continued in 2017 when our Summer Technical Training showcased our investment in analytic tools applied to the audit of revenue, as well as training on the accounting and auditing of revenue as we prepare to audit the implementation of the new revenue standard IFRS 15 'Revenue from Contracts with Customers' which is effective for periods beginning on or after 1 January 2018.	This is a significant audit risk and is addressed in page 17 of this paper.
Continue to seek to improve the consistency of the quality of communications with Audit Committees.	We take our responsibilities for reporting to the Audit Committee very seriously. There is a natural follow on that if there is a failure in the underlying audit work we will inevitably fall short in our reporting on those areas. The majority of issues noted in the report linked directly to the review findings. We continue to stress the critical importance of reporting matters to the Audit Committee in the training we deliver and in the enhanced procedures we have established, in particular around key management estimates and judgments. We have issued refreshed Audit Committee reporting templates to the practice reflecting the observations of the reviews to ensure audit practitioners continue to focus on this critical aspect of our role.	We have reported to you in page 14 and 15 of this paper the scope of work and the planned approach to the audit. We would welcome any feedback on our approach to communicating with you.

Our approach to quality

Areas identified for particular attention	How we have addressed these as a firm	How addressed in our audit
Improve the extent of challenge of management in key areas of judgment, in particular impairment reviews and valuation of acquired intangible assets.	We have developed an Impairment Centre of Excellence and have mandated its involvement in all public interest entity audits with a material goodwill or intangibles balance for years ending on or after 15 December 2016. The specialists within the Impairment Centre of Excellence, in addition to having significant experience auditing complex impairment issues, have had specialist training to be able to identify and respond to the issues raised in the AQR report. Our Summer Technical Training in 2017 included interactive workshops on this area including sharing anonymised findings from internal and external review to illustrate the types of challenge and extent of audit evidence that teams should seek to achieve in this area.	The Council does not have a goodwill balance and is not considered a public interest entity. However, the Council does have a material intangibles balance (comprising mainly of fishing quotas). Deloitte will consider the need to consult with specialists following receipt of the valuation from the Council's external valuers and consideration of the implementation of the improvement points that were raised in this area of the prior year audit.
Make further improvements to the audit of defined benefit pension scheme balances in corporate entities.	We have improved our procedures to ensure confirmations are obtained from asset custodians where appropriate. In December 2015 we introduced a detailed practice aid dedicated to all areas of corporate pension balance auditing together with increased training. We have also mandated consultation with our Pension Audit Centre of Excellence for years ending on or after 15 December 2016 and refreshed the practice aid. This ensures our corporate audit teams have access to our experts in the audit of pension balances.	The Council is a member of the Shetland Islands Council Pension Fund. We will consult with our Pension Audit Centre of Excellence in advance of our year-end work.

Deloitte.

Shetland Islands Council Pension Fund

Planning report to the Audit Committee on the audit for the year ended 31 March 2018

7 February 2018

Deloitte Confidential: Public Sector

Contents

Planning report

Director introduction
The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with the Audit Committee.

I have pleasure in presenting our planning report to the Audit Committee for the 2017/18 audit of the Shetland Islands Council Pension Fund ("the Fund"). I would like to draw your attention to the key messages of this paper:

Fund changes	Following discussions with the Fund's finance team we have not identified any significant changes to the Fund itself during the year, other than changes to some of the sponsoring employer contribution rates as outlined in the latest triennial valuation. We will continue to liaise with the finance team to identify any changes between the date of this report and the Fund's year end, and will update our audit plan accordingly should any occur. There have been no significant regulatory changes to the accounting of the Fund in the current year. The Code of Practice on Local Authority Accounting in the UK ("the 2017/18 Code") applies in the current year.
Significant audit risk	We have identified management override of controls as our significant audit risk. Auditing Standards require us to assume that management override of controls is an audit risk for all of our audits. Further details of this significant risk, including our proposed testing can be found on page 13.
Areas of audit focus	The following areas of focus have not been identified as significant audit risks but will be considered as part of our audit: 1. Accuracy of contributions payable to the Pension Fund; and 2. Valuation of investments. Further details of the areas of audit focus, including our proposed testing are outlined on pages 14 to 15.

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Director introduction (continued)

The key messages in this report (continued)

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with the Audit Committee.

Audit Dimensions	The 2016 Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the Fund is addressing these and we will report our conclusions in our annual report to the Members and Controller of Audit in September 2018. In particular, our work will focus on: • ***Financial sustainability*** – we will monitor the Fund's actions in respect of its medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if the investment strategy is effective. • ***Financial management*** – we will review the budget and monitoring reports of the Fund during the year to assess whether financial management and budget setting is effective. • ***Governance and transparency*** – from our review of the Fund's Audit Committee papers and attendance at Audit Committee meetings we will assess the effectiveness and scrutiny of governance arrangements. We will also share best practice examples, where it is deemed appropriate. • ***Value for money*** – we will gain an understanding of the Fund's self-evaluation arrangements to assess how it demonstrated value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

Pat Kenny
Audit Director

Responsibilities of the Audit Committee
Helping you fulfil your responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of responsibilities, relating to the financial reporting process, to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling their remit.

The primary purpose of the Auditor's interaction with the Audit Committee

- Provide assurance over the financial statements;
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility for overseeing the financial reporting process; and
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities.

Oversight of external audit

- At the start of each annual audit cycle, ensure the scope of the external audit and fee are appropriate.

Integrity of reporting

- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the Fund advisers where activities have been delegated by the Audit Committee.
- Assess the completeness of disclosures, including consistency with disclosures required under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Oversight of Internal Audit

- Consider annually whether there is a need for an internal audit function and any testing to be performed over pension activities.

Internal controls and risk

- Review the internal control reports and risk management systems for Fund advisers.
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Whistle- blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your Fund

We have not identified any significant changes to the Pension Fund during the year, with the exception of changes in the rate of employer contributions. The Code of Practice on Local Authority Accounting in the UK is still applicable in the current year.

Scoping

We have performed our initial scoping based on current requirements and Audit Scotland planning guidance.

More details are given on page 9.

In our final report

In our final report to you we will conclude on the significant audit risk and areas of audit focus identified in this report, including how we have assessed them together with any misstatements or control observations identified.

Determine materiality

Financial statement materiality will be based on 1% of net assets as at 31 March 2018.

Further information around our materiality calculation can be found on page 8.

Risk assessment

We have identified the significant audit risk and areas of audit focus based on our knowledge of the Fund.

Each of these is discussed in more detail on pages 12 to 15.

Quality and Independence

We confirm that we are independent of Shetland Islands Council Pension Fund. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

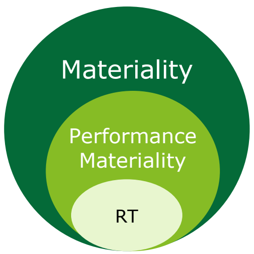
Materiality
Approach to materiality

Basis of materiality - benchmark

We set materiality for our opinion on the financial statements at 1% of net assets of the Fund and performance materiality at 90% of materiality based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.

As a reference our materiality and performance materiality for the 2016/17 Annual Report and Accounts was determined as £4.49m and £4.041m respectively.

We will update our materiality assessment following receipt of the draft 2017-18 financial statements and will communicate this to the Audit Committee in our final report.



Reporting to the Audit Committee

We report to the Audit Committee any unadjusted misstatements greater than 5% of materiality ("reporting threshold") and other adjustments we consider to be qualitatively material. Based on the 2016-17 Annual Report and Accounts, we determined the reporting threshold ("RT") to be £224.5k.

We will report to you misstatements below this threshold if we consider them to be material in nature.

Our audit report

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Although materiality is the judgement of the audit director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

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Scoping

Our key areas of responsibility under the Code of Audit Practice

Core audit

Our core audit work as defined by Audit Scotland comprises:

- providing the **Independent Auditor's Report** on the annual accounts;
- providing the **annual report** on the audit addressed to the Pension Fund Audit Committee;
- communicating **audit plans** to the Audit Committee;
- providing **reports to management**, as appropriate, in respect of the auditor's responsibilities in the Code;
- identifying significant matters arising from the audit, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required; and
- undertaking work requested by Audit Scotland or local performance audit work.

Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – looking forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management –** financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money -** using resources effectively and continually improving services.

Wider scope requirements
Audit dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Fund addresses these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2018 Audit
Financial sustainability looks forward to the medium and longer term to consider whether the Pension Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.	• The financial planning systems in place across the shorter and longer terms. • The arrangements to address any identified funding gaps. • The affordability and effectiveness of funding and investment decisions made.	We will review the arrangements and financial planning systems in place by the Fund to ensure that its services can continue to be delivered. This will include a review of the latest actuarial valuation of the Fund and the plans in place to reduce the deficit over the shorter and medium term. In addition we will review the funding policy as set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027, which aims to ensure the long-term solvency of the Fund, so that there are sufficient funds available to meet all benefits as they fall due.
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	• Systems of internal control. • Budgetary control system. • Financial capacity and skills. • Arrangements for the prevention and detection of fraud.	We will review the budget and monitoring reporting by the Fund during the year to assess whether financial management and budget setting is effective. In addition we will also ensure that there is a proper officer and fund manager who have sufficient status to be able to deliver good financial management, that monitoring reports contain information linked to performance as well as financial data, and that members have the opportunity to provide a sufficient level of challenge around variances and under-performance. Our fraud responsibilities and representations are detailed on pages 19 and 20.

Wider scope requirements (continued)
Audit dimensions (continued)

Audit dimension	Areas to be considered	Impact on the 2018 Audit
Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	• Governance arrangements. • Scrutiny, challenge and transparency on decision making and financial and performance reports. • Quality and timeliness of financial and performance reporting.	We will review the Fund's papers and use our attendance at Audit Committee meetings to assess the effectiveness and scrutiny of governance arrangements. We will also review other aspects of governance around the Fund including Codes of Conduct for officers and members, fraud and corruption arrangements, and arrangements for reporting regulatory breaches to the Pensions Regulator. In addition we will review the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issued by Scottish Ministers.
Value for money is concerned with using resources effectively and continually improving services.	• Value for money in the use of resources. • Link between money spent and outputs and the outcomes delivered. • Improvement of outcomes. • Focus on and pace of improvement.	We will gain an understanding of the Fund's self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. We will also review the scrutiny that is in place to challenge the Fund's investment managers on fees and performance.

Significant Audit Risk and Areas Audit of Focus Dashboard

We welcome the Audit Committee's input into this risk assessment to ensure that any new or emerging risks or themes are considered for inclusion as a significant audit risk or area of audit focus.

Risk Area	Risk Level	Fraud Risk	Controls Approach to Testing	Level of Judgement
Management override of controls			D&I	
Areas of audit focus				
Accuracy of Contributions			D&I	
Valuation of Investments			OE	

	Low levels of management judgement/involvement		Not a Fraud Risk		Significant Audit Risk
	Medium levels of management judgement/involvement		Fraud Risk		Area of Audit Focus
	High degree of management judgement/involvement	**D & I**	Design and Implementation		
		OE	Operating Effectiveness		

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Significant audit risk
Management override of controls

Description

In accordance with ISA 240 (UK and Ireland), management override of controls is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Deloitte Response

In order to address this significant audit risk, we will perform the following audit procedures:

- Make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Perform testing on the design and implementation of controls surrounding the financial reporting process and the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. As part of our work in this area, we will perform an analysis of journal entries which will enable us to focus on journals meeting specific pre-determined parameters determined during our audit planning;
- Review the financial statements for any accounting estimates which could contain management bias, and assess the judgements taken against supporting evidence;
- Ensure that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Obtain an understanding of the rationale of any significant transactions that we become aware of that are outside the normal course of the Fund’s operations or that otherwise appear to be unusual given our understanding of the Pension Fund and its environment; and
- Make enquiries of management in relation to the identification of related party transactions.

Areas of audit focus
Accuracy of contributions

Description

The correct deduction of contributions depends on systems-based processing of membership data and salary details, together with a robust internal control framework. Errors in processing contributions can lead to issues such as non-compliance with the Local Government Pension Scheme Regulations 2014 ("LGPS Regulations") and the recommendations of the Actuary, and deducting incorrect amounts from active members' payroll which can be costly to rectify and cause reputational damage.

Due to the changes in employer contribution rates in the current year, there is a risk that contributions are not paid to the Fund accurately.

Deloitte Response

In order to address this area of audit focus we will perform the following audit procedures:

- Review the design and implementation of key controls over the contribution process;
- Perform an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of active members, we will recalculate individual contribution deductions to ensure that these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the Actuary for employer contributions;
- Test that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions; and
- Test the reconciliation of the total number of active members between the membership records and the employer payroll records.

Other areas of audit focus (continued)
Valuation of investments

Description

There is a risk that investments are not valued accurately in the Fund's financial statements due to the potential levels of judgement involved in pricing such investments.

The Fund holds investments primarily in pooled funds, pooled property unit trusts and fixed income unit trusts with a range of investment managers.

Deloitte Response

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation and operating effectiveness of key controls over the valuation of the investments by obtaining investment manager internal control reports and evaluating the implications for our audit of any exceptions noted;
- Agree year end valuations, sales proceeds and purchases in the financial statements to the reports received directly from the investment managers;
- Perform valuation testing by using a range of techniques depending on the type of investment. Where the investment held is directly quoted on an exchange, we will obtain an independent price of the investment asset using our own internal pricing systems e.g. Bloomberg. Where the investment is not directly quoted on an exchange we will confirm if it is registered on the Financial Conduct Authority website and obtain an independent price, or use sales transactions close to year end as an estimate of the price. Where none of these options are available we will obtain audited financial statements and assess the year end price against the audited accounts.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

P. Kenny

Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

23 January 2018

Appendices

Prior year audit adjustments
Uncorrected and disclosure misstatements

Uncorrected misstatements

There were no uncorrected misstatements identified during the course of our prior year audit.

Disclosure misstatements

There were no uncorrected disclosure misstatements identified during the course of our prior year audit.

Fraud responsibilities and representations
Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Audit Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from the Audit Committee regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risk section of this document, we have identified the risk of fraud in management override of controls as a key audit risk for your Fund.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Audit Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the Fund and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations
Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The fee for the 2017/18 audit has been agreed as £29,486 (2016/17: £30,238).
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place in relation to any non-audit services provided including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. We do not intend to perform any non-audit services during the 2017/18 audit.
Relationships	We have no other relationships with the Fund, the Audit Committee, or management, and have not supplied any services to other known connected parties.

Shetland Islands Council

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Meeting(s):	**Audit Committee**	**7 February 2018**
Report Title:	**Six - monthly Internal Audit Progress Report 2017/18**	
Reference Number:	**IA-01-18-F**	
Author / Job Title:	**Crawford McIntyre – Executive Manager – Audit, Risk & Improvement**	

1.0 Decisions / Action required:

1.1 That the Audit Committee note the contents of the six monthly report and comment accordingly.

2.0 High Level Summary:

2.1 The report presents the Audit Committee with details of progress made to date against the Audit Plan approved for 2017/18. It also highlights the main issues identified during Internal Audit assignments.

3.0 Corporate Priorities and Joint Working:

3.1 This report, which provides an update on audit activity, contributes to improving the arrangements for Member engagement in monitoring Council performance and contributes to high standards of governance, excellent financial management arrangements and working in a more effective way.

4.0 Key Issues:

4.1 Satisfactory progress is being made against the 2017/18 Internal Audit Plan. It is anticipated that at least 90% of the plan will be completed by the financial year end.

4.2 Main issues identified are referred to in Appendix 1.

4.3 Quarterly reports are provided to Directors highlighting if agreed actions have passed their agreed implementation date. These then become the Director's responsibility to progress. Any ongoing lack of progress is reported to the Chief Executive and if necessary would then be reported to Audit Committee.

4.4 Directors are also advised of actions recorded as completed and are advised to ensure issues have been resolved and no further action is required.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :		
6.1 Service Users, Patients and Communities:	The Council must ensure best value in the delivery of services. The work of Internal Audit and the Audit Committee can provide assurance in this regard.	
6.2 Human Resources and Organisational Development:	Some of the work undertaken in 2017/18 has related to HR matters particularly in relation to maximising attendance. Having effective attendance management arrangements in place makes a positive impact on the performance of the organisation and the workforce.	
6.3 Equality, Diversity and Human Rights:	None arising directly from this report.	
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds.	
6.5 Finance:	The work of internal audit contributes towards effective financial stewardship within Shetland Islands Council.	
6.6 Assets and Property:	None arising directly from this report.	
6.7 ICT and new technologies:	There is provision within the audit plan to undertake IT audit work.	
6.8 Environmental:	None arising directly from this report.	
6.9 Risk Management:	Whilst no specific risk can be attributed to this report, Internal Audit facilitates reduction of risks identified as a result of work undertaken. This can only be the case if management act as per agreed actions plans to deal with issues identified by Internal Audit.	
6.10 Policy and Delegated Authority:	The Audit Committee remit includes consideration of audit matters and to oversee and review action taken on audit activity.	
6.11 Previously considered by:	None.	N/A

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26th January 2018

Appendices:
Appendix 1 – Six monthly progress report 2017/18

Background Documents: *None*

Audit	Auditee	Progress Report / Key Audit Issues
Payroll & Pensions	Team Leader - Expenditure	Work being finalised. No significant issues have been identified.
Ferries	Executive Manager – Ferry Operations	Three key audit issues were identified during the course of the audit: • Passenger numbers recorded on the Masters Log and the ticket machines rarely reconcile with no process in place to ensure the numbers counted by the Mate and tickets issued by the deckhand reconcile. This is a recurring issue that has previously been raised by Internal Audit. • Data on discrepancies between the ticket machine and cash counts is recorded, however this information is not used for any analysis to identify where training or further investigation may be required. There is an opportunity for misappropriation as these discrepancies are not being reviewed. • There was still an overall lack of control around the Multi Journey Tickets. A procedure was agreed following an exercise undertaken by a former Council employee, however this procedure has not been implemented. Ticket portions are returned to Sella Ness in weekly batches which makes it impossible to reconcile to the daily ticket reports. This is also a recurring issue that has previously been identified by Internal Audit. Other issues were identified and commitment was given to address matters. An action plan is in place.

Train Shetland – Short Courses	Short Courses Manager	Commenced January 2018.
Insurance	Team Leader - Legal	Scheduled for 4th quarter.

Investigations / Reviews	**Reported to:**	
Credits - Shetland College	Acting College Principal – Shetland College	Report issued.
Hardship Fund – Shetland College	Acting College Principal – Shetland College	Report issued.
LEADER Funding	Executive Manager – Economic Development	Report issued.
Performance Indicators	Internal	Work undertaken. Some minor issues identified and resolved.
Data Protection & Retention & Destruction	N/A	Work in conjunction with Team Leader – Administration.
Scottish Welfare Fund	Team Leader – Revenues & Benefits	A lack of segregation of duties was identified along with other lesser areas of concern. Recommendations made were accepted and immediately implemented.
Procurement Reviews	CMT	Over £50K There has clearly been progress since our previous review in 2013 and follow-up in 2015 but there still remains work to be done by both Procurement and individual departments responsible to ensure Contract Standing Orders are observed. The concerns arising from this review, include: a lack of awareness and understanding from officers when procuring high value goods works and services without regard for Contract Standing Orders; lack of compliance with Contract

		Standing Orders in the form of Director approval and the absence of exception reports to committee where competitive tendering / competition has not been undertaken; the Contracts Register may not reflect an up-to-date and accurate picture; high value manual transactions are not always appropriately authorised and tender reports were not always available where competitive tendering has been used. <u>Under £50K</u> Opportunities for improvement in procurement monitoring arrangements were identified. This included improvements in relation to the level of analysis of procurement expenditure that is undertaken by the Procurement Team. It is acknowledged that the lack of detailed analysis that has been undertaken is partly attributable to resource constraints within the team. Improvements are also required in the arrangements for monitoring actual expenditure on contracts against the estimated value of the contract at the start of the tender exercise. The arrangements for this are currently unclear and it was found that monitoring of this nature was not being carried out in practice. Inconsistencies in the approach for monitoring contract expiry dates were also noted. In order to ensure that the Procurement Team has oversight of all relevant procurement activity, the Contract Standing Orders outline that services should inform the Procurement Team of all contracts awarded above £10k in order to ensure that all relevant contracts are captured for publishing. It would appear that some officers with procurement responsibilities were unaware of this requirement and it was not always being followed in practice. The Ferries Operations section maintains a register of all procurement activity; however, there is no consistency across the Council. Furthermore, the Ferries Operations register is not cross referenced to

		the central procurement register to ensure that all contracts are being recorded as required. There were cases on this register where, based on the actual expenditure, the Procurement Team should have undertaken the procurement as opposed to the service contact. From review of a sample of procurement exercises undertaken out with the Procurement Team, issues identified included: · Officers being unaware of their responsibility to ensure that adequate insurance arrangements are in place; · Additional goods, services or works being procured after a supplier has been selected; · Sole supplier used repeatedly with procedures not observed · Values of goods, works or services exceeding the estimated contract values; · Cases where there is no audit trail to evidence the tender exercise that was undertaken; · Cases where written formal contracts were not in place. It was also identified that a framework had been put in place for vehicle and plant hire. An estimated value for the contract could not be provided, however we were advised that it had only been advertised locally (i.e. was not expected to be above EU thresholds). Based on the value of some of the expenditure that has already gone through the contract, further work is required to determine if this will exceed EU thresholds across the duration of the framework and what the implications are, with advice from Legal Service. A review of the arrangements for restricting access to the Public Contracts Scotland (PCS) portal to appropriate officers found opportunities for improvement. Administration permissions had been assigned to more users than was necessary, and the Central Procurement Team share the core admin account username and password, despite having been set up with individual logins. This

		reduces the transparency of the audit trail. The findings of the report have been agreed and they were presented at CMT on 5/12/17. It was agreed that CMT were to consider completed action plans at a future meeting.
Risk Assessments	CMT	Several key issues were identified during the course of this review regarding the management of health and safety across the Council: • There are services throughout the Council that could not provide any formal written Health and Safety Risk Assessments in place. • In addition to this, there are out of date and incomplete risk assessments across the Council. • There is no adequate monitoring programme in place to ensure services are fulfilling their Health and Safety requirements. This recurring issue was raised as part of Service audits carried out in both 2004 and 2011. • Fire risk assessments are not always completed, and a large number of completed assessments are out of date. Other areas of concern were identified around training, format of assessments, recording of key hazards, completion of assessments and control measures. These issues are detailed further in the audit issues section below. Executive Managers have been advised of findings and to resolve as a priority. The report was presented to CMT and Directors are responsible for ensuring recommendations applicable to their Directorate are implemented. *The Executive Manager – Human Resources advises the following*

		updates: • *A new system of completing and monitoring Fire Risk assessments across all council workplaces has now been completed by Health and Safety and Estate Operations.* • *A Sharepoint site is now in place for storage of risk assessments which will enable monitoring to be carried out by Health and Safety.* • *A monitoring programme is now in place for schools with a more detailed programme being developed for high priority work locations.*
Lair Reservation System	Executive Manager – Environmental Services	Review undertaken. New system introduced. Controls in place found to be adequate.
Maximising Attendance	CMT	Requirements of the Maximising Attendance Policy are being inconsistently applied throughout the Council. Issues were identified in the following key areas: • Returns to Work Discussions are not being held promptly after every absence and are not being fully/appropriately completed or signed. • Triggers and Stages are not being implemented appropriately throughout the Council. • Outcome letters are not being issued as per policy • PIN forms are not always being completed for work related absences Other lesser areas of concern were also identified. The report was presented to CMT and Directors are responsible for ensuring recommendations applicable to their Directorate are implemented.

Grants	CMT	Scheduled for 4th quarter.
Telematics	Executive Manager – Estate Operations	Scheduled for 4th quarter.
ICT Inventory Management	Executive Manager - ICT	Work currently ongoing.
Network access	Executive Manager - ICT	Work currently ongoing.
ICT Business Continuity	Executive Manager - ICT	Work currently ongoing.
Systems access	Executive Manager - ICT	Ongoing within service audits. No issues identified to date.
Follow up Audit monitoring	CMT	Scheduled for 4th quarter.
Integration Joint Board	Integration Joint Board	Scheduled for 4th quarter.

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Meeting(s):	Audit Committee Policy & Resources Committee	7 February 2018 12 February 2018
Report Title:	Scottish Household Survey	
Reference Number:	IA-02-18-F	
Author / Job Title:	Crawford McIntyre - Executive Manager – Audit, Risk and Improvement	

1.0 Decisions / Action required:

1.1 That the Audit Committee should discuss the content of the linked report and highlight any Indicators where further attention or explanation is required through this Committee, other Committees or by Council management.

1.2 That the Policy & Resources Committee should review the content of the linked report and highlight any issues with standards or levels of service that the report highlights.

2.0 High Level Summary:

2.1 The Scottish Household Survey is a continuous survey based on a sample of the general population in residences in Scotland.

2.2 The Scottish Household Survey Annual Report presents reliable and up-to-date information on the composition, characteristics and behaviour of Scottish households at a national level.

2.3 Local Authority Tables for 2016 have been published recently, providing comparable information at Local Authority level. The 2016 report for Shetland is linked here: http://www.gov.scot/Topics/Statistics/16002/LAtables2016/ShetlandIslands

2.4 The Shetland sample size for most indicators is 260 or higher. This is one of the highest proportionate sampling size in Scotland and produces consistent year-on-year results.

3.0 Corporate Priorities and Joint Working:

3.1 The indicators in this report cover areas directly influenced by the Authority, areas of joint working and also areas where the Authority has little or no influence.

3.2 Corporate Plan: *"Our performance as an organisation will be managed effectively, with high standards being applied to the performance of staff and services. Poor performance will be dealt with, and good service performance will be highlighted and shared."*

4.0 Key Issues:

4.1 This report provides an opportunity for the Committee to discuss the Scottish Household Survey results, the trends in local indicators, and how local indicators compare with national indicators.

4.2 The report is comprehensive and analyses data in over 600 tables. Members may wish to consider the following results in particular:

4.2.1 **Local Services** (Chapter 9 – Pages 92-98)

Figure 9.1 (p92) – Shetland continues to show high "*satisfaction with quality of local schools*" results at 89% compared to a Scottish average of 73%.
Table 9.3 (p94) – Shows a large difference in the satisfaction rates of those surveyed outside Lerwick (Remote rural) compared to those in Lerwick (Remote small town). Of the 80 surveyed outside Lerwick, 69.2% were satisfied with "all three services" (health, schools and transport) whereas in Lerwick, the result was only 39.4%.

Figure 9.2 (p95) – Shetland scores significantly higher than the Scottish average on "*Good at communicating services*", "*High quality services*", "*Good at communicating performance*", it scores higher on all measures in this question with the exception of "*Does its best with the money*" (34% compared with 41%).

4.2.2 **Environment** (Chapter 10 – Pages 100-111)

Figure 10.2 – Disposal of food waste in a Local Authority provided caddy - This figure shows that Shetland (at 4%) is well behind the Scottish average (56%). However, Members should note that the Council is exempt from providing waste food caddies as this legislation does not apply in rural areas.

4.2.3 **Volunteering** (Chapter 11 – Pages 113-124)

Figure 11.1 – Providing unpaid help to organisations or groups. This shows that over the past 5 years, the percentage of those surveyed providing unpaid help has steadily risen and is now over double the rate in the rest of Scotland (56% compared to 27%).
Figure 11.5 – Shows that, even when comparing Shetland to geographically similar areas elsewhere, Shetland still outperforms in volunteering for groups.

4.3 The attached report is auto-generated by the Scottish Household Survey. There are some issues with missing data, these have been reported to the survey team.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :		
6.1 Service Users, Patients and Communities:	The Scottish Household Survey Annual Report is compiled from responses from our community.	
6.2 Human Resources and Organisational Development:	None	
6.3 Equality, Diversity and Human Rights:	Section 2 of the report contains some indicators related to protected characteristics. Tables 4.13 - 4.17 shows discrimination against some protected characteristics.	
6.4 Legal:	None	
6.5 Finance:	None	
6.6 Assets and Property:	None	
6.7 ICT and new technologies:	None	
6.8 Environmental:	None	
6.9 Risk Management:	There is a risk that, due to the small sample size, the results are not a true representation of local issues. However, despite the small sample size (around 1 in 80), results are consistent year-on-year.	
6.10 Policy and Delegated Authority:	The Audit Committee has responsibility to consider performance reports from relevant agencies and to promote good performance management. The Policy & Resources Committee is responsible for reviewing the overall effectiveness of the Council's work and the standards and levels of service. The linked report gives Members an opportunity to compare local performance against national averages.	
6.11 Previously considered by:	N/A	

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30 January 2018

Appendices: None

Background Documents: http://www.gov.scot/Resource/0052/00528114.pdf