

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

Present:

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

Apologies:

None

In attendance (Officers):

C McIntyre, Executive Manager – Audit, Risk and Improvement
J Riise, Executive Manager – Governance and Law
H Tait, Team Leader – Accountancy
J MacLeod, Performance and Improvement Adviser
P Wishart, Solicitor
L Adamson, Committee Officer

Also:

E Macdonald
J Corrigan, Deloitte LLP
D Peuters, Deloitte LLP (by telephone)

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

The Chair welcomed the representatives from Deloitte LLP, Mr Corrigan who was present at the meeting, and Ms Peuters who was participating via phone link.

Declarations of Interest

None

Minutes

The Committee confirmed the minutes of the meeting held on 14 December 2017 on the motion of Mr Scott, seconded by Mr McGregor.

01/18 **Annual Audit Plans 2017/18 for Shetland Islands Council and Shetland Islands Council Pension Fund**

The Committee considered a report by the Executive Manager – Finance (F-001-F) which presented the planned audit work by the Council's external auditors, Deloitte

LLP, for the 2017/18 financial year, as set out in the Shetland Islands Council and Shetland Islands Council Pension Fund Audit Plans.

Mr J Corrigan outlined to the Committee the key messages from the Shetland Islands Council Audit Plan. He advised on the three significant audit risks identified, being the recognition of grant income, management of overriding controls and revaluation of property, and the four wider audit dimensions being financial sustainability, financial management, governance and transparency and value for money. He highlighted the section on the responsibility of the Audit Committee, advising that Deloitte would be available to provide assistance and guidance. He outlined the Audit process and timescales for reporting, and advised on the areas of regulatory change with the introduction of MIFID2, the new IFRS 9 Financial Instruments, which will apply next financial year, IFRS 16 Leases which comes into effect from 2019/20, and on the General Data Protection Regulation (GRDP) which comes into effect from May this year. In concluding, Mr Corrigan reported on the audit fees for 2017/18 for the Council and Zetland Education Trust, which have been agreed in line with Audit Scotland guidance.

In response to questions, Mr Corrigan reported that the audit last year found that financial management procedures were in place, however this was an area that would be reviewed, and updated at least on an annual basis from an audit perspective, as it would for any organisation that progresses and changes.

In response to a request for further explanation in terms of the financial sustainability audit risk, Mr Corrigan advised that reference was made to the public sector in general, in terms of financial sustainability, due to uncertainties future funding from Scottish Government and financial restraints. He advised however, that Shetland Islands Council is performing better than most other Councils in Scotland.

In response to a question, Mr Corrigan advised on the MIFID2 regulation coming into effect, which concerns how financial markets are operated. He advised from an initial review, that Deloitte do not anticipate an impact on the portfolio or investment strategy of the Council. The Executive Manager – Governance and Law advised that a report on the implementation of MIFID2 had been presented to the Council's Pension Fund Committee/Pension Board in December 2017, which he indicated to Members of the Committee could be accessed from the Council's information system. He added that Deloitte will monitor application of MIFID2 and compliance will be reported later in year.

In response to a question relating to the significant audit area identified on the revaluation of property and plant, Mr Corrigan advised that while no concerns had been raised during last year's audit and there is no major financial risk to the Council, this was an area that would be extensively reviewed during the audit process. During further discussion, reference was made to the discussion at the previous Audit Committee on the issues to recruit qualified Valuers to the Council's Asset and Properties Team. The Executive Manager – Governance and Law undertook to liaise with the Executive Manager – Capital Programme Service for an update on recruitment, and would provide Members with a briefing note, or alternatively a report, should there be particular issues to address.

Reference was made to a wider scope requirement of the audit relating to EU withdrawal, where suggestions were sought from Mr Corrigan on any particular areas of focus by the Council's Brexit Sounding Board. Mr Corrigan advised that

this was an area of audit risk common to all public sector clients, and he advised on the difficulty at this stage to identify any specific risks due to the many uncertainties throughout the process. He added however that the Audit Committee would be advised should any risks be identified.

Ms D Peuters reported from the key messages from the Pension Fund Audit report, advising that no significant changes have been identified to the Fund, other than some changes to the sponsoring employer contribution rates. She reported on the significant risk identified being the management of override of controls and on the areas of focus relating to the accuracy of contributions payable and valuation of investments. She highlighted the approach to materiality, and concluded by advising on the audit fee agreed for the 2017/18 audit.

There were no questions to Ms Peuters.

There was no debate, and the Committee noted the report.

Decision:

The Committee **NOTED** the contents of the report.

02/18

Six-Monthly Internal Audit Progress Report 2017

The Committee considered a report by the Executive Manager – Audit, Risk and Improvement (IA-01-18-F), which presented details of progress made to date against the Audit Plan approved for 2017/18.

The Executive Manager – Audit, Risk and Improvement introduced the report.

During the discussion, comment was made on the honest and open approach in reporting to the Committee on the issues identified during the audits. It was acknowledged that the responsibility to address the issues rests with managers, and that ongoing issues would have to be raised at the functional Committees.

Reference was made to the report that 90% of the Audit Plan will be completed by the financial year end, and the Service was commended in that regard.

During the discussion, concern was raised on the issues identified from the Procurement Audit. The Executive Manager – Audit, Risk and Improvement advised that while improvements had been made following the overview of the Council's Contract Standing Orders, it has been acknowledged that that further training to managers is required. He confirmed however that it is manager's responsibility to ensure the revised procedures are followed.

In referring to the report of the procurement framework put in place for vehicle and plant hire, the Chair sought clarity from Legal Services as to whether expenditure through that contract exceeds EU thresholds and on any associated implications. It was however advised that this matter was currently being investigated, and Members of the Audit Committee would be advised on the outcome.

During the discussion, Members expressed their concern at the key audit issues identified during the audit of Risk Assessments, and in particular that, "there are services throughout the Council that could not provide any formal written Health and Safety Risk Assessments in place", and "Fire risk assessments are not always

completed, and a large number of completed assessments are out of date". In responding, the Executive Manager – Audit, Risk and Improvement agreed that the issues found during the review had been concerning. He advised however that following a report on the issues to CMT there is commitment from Directors to address the matters. He also referred Members to the update from the Executive Manager – Human Resources as included in the Appendix, which confirmed the improvements to systems and procedures to ensure risk assessment and fire risk assessments across the Council are completed and monitored.

In referring to the audit of Ferries, concern was expressed at the key issues identified where certain processes and procedures had not been in place. The Executive Manager – Audit, Risk and Improvement reported that the new Ferries Manager has given commitment that the issues will be addressed and an Action Plan is now in place. In response to a question, Members were advised to contact the Executive Manager – Audit, Risk and Improvement should they wish sight of the Action Plan.

During discussion on the Maximising Attendance audit, concern was expressed on the findings that the Policy was not being applied consistently throughout the Council, where reference was made to earlier absence management reporting that had provided reassurance to Members that procedures were being followed. The Executive Manager – Audit, Risk and Improvement referred to the initial audit of Absence Management, and advised that the follow up review during 2017 had highlighted that some issues identified were not being addressed, and in some instances return to work interviews had not been conducted. The Executive Manager – Audit, Risk and Improvement advised that there has been a further revision of procedures, namely the "Maximising Attendance Policy", and he confirmed that the issues identified had been reported to CMT and managers are responsible to ensure implementation of the Policy.

During further discussion, comment was made on the additional workload on managers to conduct return to work interviews for all absences from work, where it was suggested that in certain circumstances a return to work interview would not be required. In that regard, an example was given where an employee with a good record of attendance was absent for only one day. It was however acknowledged that return to work interviews were beneficial for both the employer and employee, in terms of the Council being a caring employer, and the dialogue provided an opportunity to ensure there are no underlying reasons for an absence from work, even when the absence is for one day.

Decision:

The Committee **NOTED** the contents of the report.

03/18

Scottish Household Survey

The Committee considered a report by the Executive Manager – Audit, Risk and Improvement (IA-02-18-F), which provided an opportunity to discuss the Scottish Household Survey results, the trends in local indicators, and comparisons between the local and national indicators.

(Mr C Smith left the meeting).

In introducing the report, the Performance and Improvement Adviser highlighted a number of the results relative to Shetland, as set out in section 4.2. The Committee were advised on the confirmation that the survey will continue to be undertaken for the next five years.

In terms of the analysis on Volunteering provided in Section 4.2, reference was made to the analysis that in 2016 volunteers in Shetland contributed 1 million hours of volunteering, equating to a value of £19m to the Shetland economy, which it was acknowledged required recognition within the community.

During the discussion, reference was made to the concerning statistic, reported in the recent Shetland Partnership leaflet, that 49% of households in Shetland do not earn enough to live well. The Performance and Improvement Adviser said that unfortunately there is an error in that particular indicator in the Scottish Household Survey so he was unable to provide any further clarity. He would however provide the information to Members of the Audit Committee when the figures are made available.

Decision:

The Committee **NOTED** the contents of the report.

The meeting concluded at 3.10pm.

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Chair