



## MINUTES

## A & B - Public

**Audit Committee**  
**Council Chamber, Lower Hillhead, Lerwick**  
**Tuesday 14 November 2023 at 10.00am**

**Present:**

A Duncan	C Hughson
S Leask	M Lyall
L Peterson	G Robinson
I Scott	C Smith
A Wenger	

**Apologies:**

G Robinson (for lateness)

**In attendance (Officers):**

C Ferguson, Director of Corporate Services  
P Fraser, Executive Manager – Finance  
J Riise, Executive Manager – Governance and Law  
K Collins, Financial Accountant  
L Malcolmson, Committee Officer  
L Adamson, Committee Officer

**Also in Attendance:**

D Black, Head of Audit and Inspection, Audit Glasgow/Chief Internal Auditor  
J Campbell, Senior Audit Manager, Audit Glasgow

**Also in Attendance (Remotely):**

B Howarth, Audit Director, Audit Scotland  
S O'Hagan, Senior Audit Manager, Audit Scotland  
F Owens, Audit Manager, Audit Scotland

**Chairperson**

Mr Duncan, Chair of the Committee, presided.

**Circular**

The circular calling the meeting was held as read.

**Declarations of Interest**

None

**Minutes**

The Committee confirmed the minutes of the meeting held on 19 September 2023 on the motion of Mr Smith, seconded by Mr Leask.

**Annual Audit Report on the 2022/23 Audit - Shetland Islands Council and Zetland Educational Trust**

The Committee considered a report by the Executive Manager - Finance (F-38-23) that presented the Annual Audit Report 2022/23 and the Audited Annual Accounts for Shetland Islands Council and the Audited Trustee's Annual Report and Financial Statements for Zetland Educational Trust for 2022/23.

The Executive Manager - Finance introduced the report and appendices. He thanked the Auditors and staff in the Finance Service and in other Council departments involved in the preparation of the documents.

Mr Howarth, Audit Scotland, referred to Section 7 of the cover letter at Appendix 1, advising on part of the audit process to seek feedback from the Committee on any issues to be brought to the Auditor's attention. He also reported on the key messages from the Audit Report and advised on the clean audit opinion.

In reporting on the audit of Zetland Educational Trust, Mr O'Hagan, Audit Scotland, advised that funds have been reclassified as being restricted rather than unrestricted. He confirmed there was no change to the value, but rather it was a presentational reflection.

Mr Howarth thanked the officers and Members for their time and patience during the audit process, this being their first year audit appointment.

*(Mr Robinson attended the meeting).*

In response to a question, the Executive Manager – Finance advised that the current figure of Council's investments was £377m.

Mr Howarth responded to comments regarding reporting on the reserves, and suggested that the Medium Term Financial Strategy was overstated on the expenditure side and said that a review of the Strategy projections would take a more balanced view in realising investments, the extent of unrealised gains on investment and on the position on using the Harbour Fund. He added that work in that regard would be taken forward with the Executive Manager – Finance to get a clearer picture going forward.

In responding to a question relating to one of the adjustments identified during the audit, the Committee was advised on the process that had been undertaken for the valuation of Council dwellings.

In regard to a question on proposals to improve tenant participation, Mr Howarth commented that the recommendation was from the previous audit undertaken in 2022/23 by the previous auditors. However, he referred to the regular Tenant Satisfaction Surveys and advised that the next Survey would be carried out in the Spring of 2026.

In responding to a comment relating to a statement in the audit report, namely, "the Council has made progress with the recommendations in the 2022 BVAR. There is evidence of progress in almost all areas, but no area is fully complete yet", Mr Howarth referred to the progress made against the recommendations, adding that in a holistic sense best value is an area of continuous improvement.

There were no further questions.

On the motion of Mr Smith, seconded by Mrs Lyall, the Committee approved the recommendations in the report.

The Chair commented that he had found the audit reports for the Council and the Zetland Educational Trust to be favourable. He said that there will always be positives and negatives to report. In that regard, he referred to the good progress in implementing the prior year's audit recommendations, however more work was still required on the other outstanding recommendations, including Procurement Compliance and Commissioning of Consultant Services. He commented that Council finances at year end were reasonably sound, however there will be many challenges ahead, but despite these challenges the Council remains financially sound and to remain sustainable the Council must not commit to overdraw on reserves so as to be well placed to serve the Shetland community into the future.

The Chair concluded by thanking the Auditors, staff and Members for the preparation of the documents and staff for their ongoing work throughout the year.

### **Decision:**

The Audit Committee:

- NOTED the findings of the 2022/23 audit; the auditor's covering letter which includes the audit opinion and Letter of Representation for both Shetland Islands Council and Zetland Educational Trust (Appendix 1); and the external auditor's Annual Audit Report (Appendix 2);
- CONSIDERED a verbal report by the external auditor;
- RECOMMENDED that the Council RESOLVES to approve the audited Annual Accounts for 2022/23 for Shetland Islands Council, for signature (Appendix 3);
- RECOMMENDED that the Council RESOLVES to approve the Trustees' Annual Report and Audited Financial Statements 2022/23 for Zetland Educational Trust, for signature (Appendix 4);
- APPROVED the Annual Governance Statement contained within the audited Annual Accounts for 2022/23 (Appendix 3).

18/23

### **Internal Audit Mid-Year Report**

The Committee considered a report by the Chief Internal Auditor (CRP-28-23) that provided an overview of Internal Audit performance during the first half of 2023/24.

The Senior Audit Manager, Audit Glasgow, summarised the main terms of the report.

In response to questions, the Senior Audit Manager provided further detail on the work associated with the National Fraud Initiative and on the investigations undertaken. She advised that not all matches investigated disclose fraud or errors and she confirmed that no significant frauds had been found to date.

In response to a question regarding the reference in the report to 'graduate apprentices', the Senior Audit Manager advised those were trainee auditors/accountants within Audit Glasgow.

In moving into debate, comment was made on the good report. Mr Robinson moved that the Committee approve the recommendation contained in the report. Mr Smith seconded.

**Decision:**

The Audit Committee:

- NOTED the content of the report; and
- ADVISED the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

19/23

**Internal Audit Summary Report**

The Committee considered a report by the Chief Internal Auditor (CRP-29-23) that provided an overview of the work undertaken by Internal Audit from 1 June 2023 and 31 October 2023 as part of the agreed Internal Audit Plan.

In introducing the report, the Chief Internal Auditor provided a brief overview of the audits undertaken during the period, namely, Payroll Verification; Community Health and Social Care Services; Grant Applications and Offers; Pension Fund Compliance with Cyber Security Principles and Council Tax Discount and Exemptions.

Referring to the Council Tax Discount and Exemptions audit, the Chief Internal Auditor reported that the issues identified led to a limited level of assurance being placed on the control environment. He outlined to Committee the recommendations as listed in the Action Plan. He advised on the good management response to address those actions, which included a formal programme to review existing documents.

During the discussion, the Chief Internal Auditor responded to questions regarding the Council Tax Discount and Exemptions audit, as follows:

- The Action Plan includes a recommendation to review all the Council Tax policies and procedures and there was an expectation that a local policy, procedure and framework will be established in responding to the recommendation
- The audit highlighted cases where it was found that some discounts and exemptions were no longer due and a larger number where supporting evidence was not in place and where discounts and exemptions had been included incorrectly and will be reviewed and removed. In referring to the lengthy piece of work to be undertaken, which may see a recalculation of some Council tax bills, it was commented that while still to be quantified it would generate an increase in income to the Council.

- Recalculation or backdating of payments would be a decision of management, taking into consideration the change in circumstances and on how the change in circumstances had not previously been acted on. There would also be a judgement on how far back to pursue any historic calculations.

Upon request, the Chief Internal Auditor outlined the different exemptions and discounts relevant to Council Tax. He confirmed that the scope of the audit did not cover Council Tax reductions but focused on the discount and exemptions when Council Tax bills were issued.

During debate, the Chair referred to the four high priority recommendations from the audit of Council Tax Discount and Exemptions and then to the 'Risk Management' section of the report, which states that progress made by management to address the issues would be monitored. In that regard, he commented on the need for some urgency to review policies and for updates to be reported to Audit Committee.

Comment was made on the good report and the Chief Internal Auditor and his team were thanked for the work in that regard. Mr Leask moved that the Committee approve the recommendation in the report. Mr Smith seconded.

### **Decision:**

The Audit Committee:

- NOTED the content of the report
- NOTED that the report format includes links to the full audit reports for further information
- COMMENTED on the outcome on the findings of the audit work completed; and
- ADVISED the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

20/23

### **Internal Audit Follow Up Monitoring Report**

The Committee considered a report by the Chief Internal Auditor (CRP-31-23) that presented a summary of the status of Internal Audit recommendations previously reported to Committee.

In introducing the report, the Chief Internal Auditor referred to the concerns previously raised by Committee regarding the number of outstanding recommendations and he provided an update on the progress made since last reporting. The Chief Internal Auditor confirmed that the audit team would continue to work with management to help progress recommendations to completion.

Reference was made to the recommendations that had been allocated a revised timescale of 31 December 2023 for completion, and it was questioned whether that deadline would be met. The Chief Internal Auditor advised that while a number of recommendations had been completed, the evidence of implementation was still to be provided to Internal Audit, and in that regard he suggested those recommendations would meet the timescale in the report.

During the discussion, the Director of Corporate Services acknowledged that the majority of outstanding recommendations fall to Corporate Services and she advised on the difficulty in progressing the recommendations due to other work priorities. The Director of Corporate Services however suggested that she would review the outstanding Corporate Services recommendations and then provide a briefing note to Members.

In response to a suggestion that the recommendations be reviewed in terms of priority, the Chief Internal Auditor explained that the original recommendations had been given a priority ranking. He referred also to the additional column added to the Register, at Appendix 2, namely "Internal Audit Comments", which included a Risk Status from Internal Audit on each recommendation. However while acknowledging the resource challenges within the Council, he said that it is for management to manage risk and to focus to get the higher risk recommendations addressed.

In referring to the statement in the report relating to the outstanding recommendations from the Housing Repairs and Compliance Checks audit, namely that "failure to adequately address these recommendations poses a serious risk to both the Council's housing tenants and the Council", a question was posed regarding the prospect of engaging outside contractors to expedite the repairs and testing required. The Chief Internal Auditor advised on his understanding that external contractors are used, however the work was taking longer due to gaining access to properties and resource issues. The Director of Corporate Services suggested that the Housing Service provide a briefing note to Members on the proposals to address the outstanding recommendations.

While acknowledging that 30 recommendations had been implemented since the last report, it was however noted that quite a number of the outstanding recommendations require the same individual, within the Council, to implement. In that regard, it was questioned whether additional support could be provided to management in order to progress the recommendations. In responding, the Director of Corporate Services advised that the small team in the Change Programme have been tasked to undertake some work in this area, however she said that it was a very limited additional in-house resource to assist with the serious recommendations prioritised while some would have to wait. She said that buying in additional resources would be an additional expense to the Council and it was also very difficult to get additional staff resources at this time. She acknowledged that some tough decisions would have to be made on prioritising work that can be focused on at any one time.

During debate, reference was made to the lack of resources within the Council and that many officers are stretched at work, where it was commented that this is added to by Members when asking for additional reports and seminars that take away from day to day workloads. It was however noted that the Director of Corporate Services had been tasking staff to assist with the outstanding recommendations wherever possible.

It was however commented that 73 outstanding recommendations were far too many, and that some had been on the Register for a number of years. However it was suggested that the Risk Status Ranking was helpful to give priority to those to be moved forward as soon as practicable and when staff are available.

Reference was made to the serious risks posed by the outstanding recommendations from the Housing Repairs and Compliance Checks audit, where it was hoped that there would be no issues due to the failure to complete.

Mr Smith moved that the Committee approve the recommendations in the report at 1.1 (1-4), with an additional recommendation, namely “that the Audit Committee agree to extend the revised due date to 31 March 2024 to give officers additional time to address the issues raised in the report and that they work with Internal Auditors to take forward a report to the first scheduled meeting of Audit Committee following that date”. In seconding, Mr Leask advised on the need to extend the deadline to give some credibility for the recommendations to be concluded.

Ms Peterson advised on the need for the most urgent and high risk recommendations to be completed as soon as possible. Ms Peterson moved, as an amendment, that the Audit Committee approve the recommendation as set out in the report at Section 1.1 (1-4). Mr Robinson seconded.

Following summing up, voting took place by a show of hands and the result was as follows:

Amendment (Ms Peterson)	4
Motion (Mr Smith)	3

#### **Decision:**

The Audit Committee:

- NOTED to content of the report
- NOTED the progress made in terms of the recommendations implemented
- ADVISED the Director of Corporate Services of its views and any recommendations for onward reporting to the Council; and
- NOTED that the Chief Internal Auditor will submit further reports on the status of outstanding recommendations.

21/23

#### **Whistleblowing Arrangements**

The Committee considered a report by the Chief Internal Auditor (CRP-30-23) that presented a draft Whistleblowing and Response Policy.

The Senior Audit Manager, Audit Glasgow, introduced the Whistleblowing Policy, advising that the document would not replace the Council's other related Policies, but would be another avenue for staff and the public to raise concerns within the Council. She advised also that feedback on concerns raised would be included in the Internal Audit update reports to Committee.

In responding to questions, the Senior Audit Manager advised that some staff can feel nervous to raise an issue, and that having an independent separate person can help individuals in the process. She advised that in terms of vexatious reporting, Audit Glasgow have the experience to filter those out. She went on to advise that

all concerns received are logged and should a pattern of vexatious reporting emerge, those would be discussed with management.

The Senior Audit Manager confirmed that there is no additional cost to the Council from the work associated with the Whistleblowing Policy, being part of the contract of the work with Audit Glasgow.

During debate, positive comment was made of the work undertaken by Audit Glasgow over the years and on the confidence that would continue in their work for the Council on whistleblowing. The Policy also has the advantage of Internal Audit being provided by an external organisation, which would give a degree of separation for those staff who may need to use the service and confidence that their concern will be looked at impartially.

On the motion of Mr Leask, seconded by Mr Smith, the Committee approved the recommendation in the report.

**Decision:**

The Audit Committee:

- CONSIDERED the information presented in this report and the draft Whistleblowing and Response Policy attached at Appendix 1;
- RECOMMENDED that Policy and Resources Committee RECOMMENDS that the Council RESOLVES to APPROVE the Whistleblowing and Response Policy at Appendix 1.

-----

The Chair thanked Mr Black, Ms Campbell and all the staff involved in the preparation of the reports.

The meeting concluded at 11.27am.

.....  
Chair