



Executive Manager: Jan-Robert Riise
Director of Corporate Services: Christine Ferguson

Governance & Law
Corporate Services Department
8 North Ness Business Park
Lerwick
Shetland, ZE1 0LZ

Telephone: 01595 744550
committee.services@shetland.gov.uk
www.shetland.gov.uk

If calling please ask for
Louise Adamson
Direct Dial: 01595 744555
Email: louise.adamson@shetland.gov.uk

Date: 11 November 2019

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Council Chamber, Town Hall, Lerwick
Monday 18 November 2019 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 meetings held on (i) 6 May 2019, (ii) 26 June 2019 and (iii) 25 September 2019 (enclosed)

Items

1. Internal Audit Summary Report
CRP-25-19
2. Scottish Household Survey
ACP-14-19



MINUTES

A & B

Audit Committee

Council Chamber, Town Hall, Lerwick

Monday 6 May 2019 at 2pm

Present:

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

Apologies:

None

In attendance (Officers):

C Ferguson, Director of Corporate Services
J Manson, Executive Manager - Finance
R McNeillie, Internal Auditor
K Adam, Solicitor
L Adamson, Committee Officer

Also:

D Black, Chief Internal Auditor (by telephone link)

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 7 March 2019 on the motion of Mr Fraser, seconded by Mr Leask.

04/19 Internal Audit – Audit Plan 2019/20

The Committee considered a report by the Chief Internal Auditor (CRP-07-19-F), which presented the Internal Audit Plan for 2019/20.

The Chief Internal Auditor firstly apologised to the Committee for not being in person at the meeting, however he confirmed he would be at Audit Committee in June, to present the Internal Audit annual report.

In introducing the report, the Chief Internal Auditor advised on the development of the Audit Plan, as set out in the Key Issues section at 4.0. He reported on the development of the Audit Plan for 2019/20, and the resources in place in the audit team in Shetland to progress the audits, and in Audit Glasgow to oversee delivery of the Audit Plan. He advised on quality assurance and the annual assessment of compliance, confirming that the Plan is kept under review and that any changes would be reported to Audit Committee. The Chief Internal Audit then introduced Appendix 1, which included the key audit areas for 2019/20, and the Audit Universe at Appendix 2, which set out key audit areas over the three year period, 2017/18 to 2019/20.

The Chief Internal Auditor invited questions from Members.

A question was posed as to how the joint internal audit arrangements between Audit Glasgow and the audit team in the Council has been working. The Director of Corporate Services advised the Committee that from her perspective, she was delighted on how quickly the working relationship has been established, with the audit service in Shetland receiving support in terms of strategic direction and professional development from Audit Glasgow. The Director of Corporate Services added that during this interim period, in spending time with the local team, she has been heartened by their enthusiasm for the new arrangements in place. The Chief Internal Auditor reported that in the relatively short period, the joint arrangement has worked really well. He advised on the remote sharing of work on the secure website, which has been working very well, and the regular discussions and also opportunities to meet directly in person. He also referred to the good networking support to CIPFA trainees on progression of their qualifications. The Internal Auditor advised on the good working relationship between the team in Shetland and Audit Glasgow, and he added that the team in Audit Glasgow will be a very helpful resource during his progression through the CIPFA qualification. Members commented that they were heartened by the comments made on the close working relationship between Audit Glasgow and the team in Shetland. In that regard, the Chair thanked all involved during the merger of audit business with Audit Glasgow.

In referring to the statement at 4.14 of the report, namely “additional resources can be called on from Glasgow City Council’s wider audit team as required”, the Chair sought clarity as to whether this would entail additional costs to the Council. The Director of Corporate Services advised that while she did not anticipate the need for any additional significant pieces of work over and above that already agreed, there would be scope to purchase additional resources in discussion with Audit Glasgow. The Chief Internal Auditor confirmed the flexible arrangement in place to draw on officers from the wider audit team with expertise and particular areas of specialism depending on the topic of the audits, and in that regard he confirmed that there would be no additional cost.

In response to a question, the Chief Internal Auditor advised on how the number of days to carry out the assurance audit work had been established, which he said had been based on past information and on the size and complexity of the organisation. The Chief Internal Auditor said that while Audit Glasgow consider the indicative number of days for the 2019/20 audit to be sufficient based on information at this time, there would however be flexibility to deal with any additional audit requirements.

Reference as made to the Audit Universe, at Appendix 2, where clarity was sought on the timescales for undertaking the audits on “Risk Assessment” and “Health and Safety”. The Internal Auditor noted the typographical error, and confirmed that both audits had been undertaken during 2018/19.

In response to a question, the Director of Corporate Service referred to the established arrangement and significant commitment from Audit Glasgow to support the in-house audit service. She advised on the proposals going forward, to review the arrangement after year one, and also near to the end of the 3 year contract that is in place.

There was no debate. Mr McGregor moved that the Committee approve the recommendation in the report. Mr Leask seconded.

Decision:

The Committee **APPROVED** the Audit Plan 2019/20.

05/19

National Fraud Initiative – Audit Scotland Report

The Committee considered a report by the Executive Manager – Finance (F-027-F) which presented the results of the most recent National Fraud Initiative exercise, 2016/17.

In introducing the report, the Executive Manager – Finance advised on the Council’s involvement in the National Fraud Initiative (NFI) along with all other Scottish Councils, and other public bodies. He reported on the aims and benefits of participating in the NFI exercise, and advised that the outcomes in Scotland from the 2016/17 exercise had been valued at £18.6m. The Executive Manager – Finance reported that the 2016/17 NFI exercise had not identified any specific instances of fraud or errors within Shetland, other than some generic recommendations applicable to all participants. The Executive Manager – Finance encouraged Members of the Audit Committee to review the NFI self-appraisal checklist, and he confirmed that the 2018/19 NFI exercise was currently underway.

In response to a question, the Executive Manager – Finance advised that Audit Scotland were to provide the summary report from the 2018/19 NFI exercise during July/August 2019. He confirmed that should there be any significant instance of fraud or error identified within the Council, this would be reported in early course.

In response to a question relating to the Equifax Public Sector Gateway service as referred to in Section 4.7 of the report, the Executive Manager – Finance explained that this was an alternative data matching service which compares records to identify any differences in information provided. The Executive Manager - Finance advised also that while the Equifax Public Sector Gateway Service was not universal through all local authorities the NFI are keen to encourage the use of that platform.

During the discussion, Mr McGregor stated that while he has every confidence in employees/officers, he enquired on the consideration given to anonymous whistleblowing within the Council. In responding, the Director of Corporate Services advised that the Reporting Concerns at Work Policy would have a number of assurances in place to support an individual who makes representation, however there would be no guarantee of anonymity. In response to a comment, and a suggestion from Mr McGregor for a discussion outside the meeting, the Director of Corporate Services said that she would be happy to discuss the matter in more detail with Mr McGregor.

In response to a question, the Executive Manager – Finance advised on the accuracy checks undertaken within the Council to ensure no omissions or errors in data matches, and for the information to fit the required template for the NFI calculations and algorithms.

During debate, the Chair referred to the final bullet point in Section 4.5 of the report, which stated, “....the NFI exercise did not result in the discovery of any additional instances of fraud or error within Shetland that had not already been identified by the Council’s existing internal controls”. The Chair stated that he welcomed the findings from Audit Scotland, and he commented on the good news story for the Council, and in that regard he thanked the staff involved.

The Chair then referred to the statement in Section 4.8 of the report, namely “...it was acknowledged by the external auditor that the Council had fully implemented the recommendations they made in the 2017/18 Audit Report”. On behalf of the Committee, the Chair thanked the staff involved for their hard work, and he asked Senior Officers to relay the Committee’s thanks to officers not present at the meeting

Decision:

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

The meeting concluded at 2.45pm.

.....
Chair



MINUTES

A & B

**Special Audit Committee
Council Chamber, Town Hall, Lerwick
Wednesday 26 June 2019 at 10am**

Present:

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

Apologies:

A Manson

In attendance (Officers):

C Ferguson, Director of Corporate Services
J Manson, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
D Black, Chief Internal Auditor
K Collins, Financial Accountant
E Cripps, Internal Auditor
R McNeillie, Internal Auditor
L Malcolmson, Committee Officer

Also Present:

M Bell
S Coutts
E Macdonald
R Thomson
G Smith
T Smith

Also in attendance (Officer):

K Watt, Deloitte

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

06/19

Internal Audit Annual Report 2018/19

The Committee considered a report by the Chief Internal Auditor (F-038-F) that presented the Internal Audit Annual Report 2018/19.

The Chief Internal Auditor introduced the report and explained that this had been a transitional year having recently taken on the role as Chief Internal Auditor. He took Members through the sections within the Appendix, and he advised that two significant issues had been highlighted in section 2.4 namely Business Continuity controls and fraud counter fraud arrangements following lessons learned from a Dundee City Council case. The Chief Internal Auditor also referred to the update on previous years' audit issues and noted that all outstanding actions would be followed up before being fully signed off. He added that section three provided the overall Internal Audit opinion whereby reasonable assurance is given on the system of internal control in the Council for the year.

In responding to questions the Chief Internal Auditor confirmed that, management should undertake a full review of administrator user access rights to ensure that no individual has unnecessary or inappropriately controlled access to systems.

A typographical error was highlighted at the second bullet of paragraph 2.5.1 in the Appendix whereby "2019/10" should read "2019/20".

Decision:

The Audit Committee NOTED the content of the report.

(Mr G Smith and Mr T Smith attended the meeting).

07/19

Annual Governance Statement 2018/19

The Committee considered a report by the Executive Manager – Finance (F-043-F) that presented the Annual Governance Statement 2018/19 that will form part of the annual accounts (Appendix 1).

The Executive Manager – Finance introduced the report, and he advised that the Governance Statement provides an overview of the governance arrangements in place across the Council. He explained that there are two significant issues identified in an earlier report referred to within the Appendix, namely Business Continuity and Fraud Controls. He said that the carry forward items previously reported were also included in the Appendix and all items would be followed up. The Executive Manager – Finance went on to advise that the governance arrangements and systems of internal control in place were sufficient and provide reasonable assurance that any significant risks can be identified and appropriate actions can be put in place to mitigate against any such risks.

In responding to a question, the Executive Manager – Finance confirmed that the significant issues would be reported in September 2019 and

followed up next year as part of the annual governance statement for 2019/20.

There being no debate, the Committee approved the Annual Governance Statement 2018/19 on the motion of Mr C Smith, seconded by Mrs Hughson.

Decision:

The Audit Committee APPROVED the Annual Governance Statement 2018/19 that will form part of the annual accounts (Appendix 1).

08/19

Interim Audit Report on the 2018/19 Audit – Shetland Islands Council

The Committee considered a report by the Executive Manager – Finance (F-042-F) that presented the Interim Audit Report on the 2018/19 Audit for Shetland Islands Council.

The Executive Manager – Finance introduced the report and explained that this report was a new stage in the audit process that summarises the first phase of the Council's external audit. He advised that the report focuses on elements that external auditors are required to examine in terms of Financial Sustainability, Financial Management, Governance and Transparency, and Value for Money.

The Executive Manager – Finance introduced Ms Watt of Deloitte, who then took Members through the Interim Audit Report in more detail. Ms Watt explained that the interim report was a change in the process in that it split the wider scope from the financial statements audit in order that it can be presented now before the Final Accounts in September 2019 and there will be an update provided at the September meeting.

Ms Watt explained the process involved in preparing the report and that included meeting with a number of members and Staff. She advised that the action plan included agreed responses and timescales. Ms Watt commented on each of the four areas of key dimensions, that were summarised in the report at section 4.5 and said that the Council achieved financial balance with a sustainable draw on reserves and had a sustainable budget set.

A question was asked regarding the use of the word "sustainability" Members were advised that although the Council had achieved financial balance in 2018/19, it had relied on the use of reserves over and above the level it deems to be sustainable, without negatively impacting potential future gains and growth of its investments. Mrs Watt explained that continued "one-off" draws on reserves to balance annual budgets is not considered sustainable into the future and the reserves would diminish each year, meaning there would be less invested, and therefore less of a return, when costs in providing services and maintaining assets would be increasing. The point was however made that the investments had grown in the last year by 7-8% when the FTSE had dropped therefore the Reserve fund was self-serving and therefore sustainable.

In responding, Ms Watt stated that from an audit perspective, continued draws on reserves posed a risk that is then reported on.

Reference was made to the naming of staff members in the report and it was agreed that this would be addressed outwith the meeting. Comment was also made in regard to the workload on Elected Members and Officers and that the level of work undertaken was down to the individuals involved and should not be judged by Members or Auditors.

Ms Watt responded to a question on the significant effect of the funding gap and the fair funding for internal ferries. She stated that the report made mention of this and it was recommended that the fair funding for internal ferry services be reviewed again to check whether it was appropriate to assume funding would be granted in setting next year's annual budget but discussion was not part of Deloitte's role.

During further questions, Ms Watt confirmed that the report had been provided earlier to allow Members and Officers the opportunity to consider and implement recommendations over 9 months, rather than 6 months between September and March. She added that some actions had already been taken. Reference was also made to the Value for Money section and in referencing the IJB, Ms Watt was asked how pressure could be put on the NHS and the Council to ensure that the IJB have a budget of their own rather than a deficit situation that is sorted at the last minute at the end of each year. Ms Watt advised that all parties should work together on this and that there are some areas where the IJB has one budget. She said however that this was recognised as a difficult thing to do and Shetland was not the only area with this issue.

During debate, comment was made that the report highlighted the amount of work to be done but Members and Officers would work together to get actions approved over the next few months. It was also suggested that the Council was in a similar position in 2010, but as Members they had to take responsibility for the report and put a plan in place. There was comment on the amount of work being added to staff but the decision and responsibility lies with Members and that Officers need to be told what Members expect and this can be done but not on an adhoc basis. Further comment was made that the report had been valuable for Members on how it can be responsive to constructive criticism in a positive light.

During his address, the Chair said that he welcomed the report and that he had reflected on its content. He expressed his disappointment that Deloitte had reported the Council's performance as mediocre at best. He referred to the key areas identified and said that Senior Management was seen as inadequate and there had also been mention of the IJB. The Chair said that improvements had been identified for governance and he noted that there was a new Performance Management Framework for 2019-2024 being presented to Policy and Resources and Council next week. From a positive perspective he said that the report states SLAP and the College Merger will bring savings if it is managed and monitored appropriately. The Chair said that the Council is urged to identify savings immediately, this financial year with no draw on

reserves, but he said that the reserves draw was due to the lack of fair funding for ferries which was a failure of the Scottish Government. He said that this lies at the heart of the Scottish Government who had a duty to honour the commitment it made and that Shetland should not be treated differently from all other Island groups. The Chair said that the key to success was its staff and this was an essential expense that should be nurtured sensitively. The Chair thanked everyone involved with the preparation of the report.

There being no further debate, the Committee noted the report.

Decision:

The Audit Committee:

- NOTED the interim findings of the 2018/19 audit as contained in the external auditor's Interim Report at Appendix 1;
- NOTED the agreed Action Plan as outlined in the Interim Report; and
- CONSIDERED a verbal report by the external auditor.

The meeting concluded at 10.55am.

.....
Chair



MINUTES

A & B

Special Audit Committee
Council Chamber, Town Hall, Lerwick
Wednesday 25 September 2019 at 10am

Present:

A Duncan	C Hughson
S Leask	R McGregor
I Scott	C Smith

Apologies:

J Fraser	A Manson
----------	----------

Also:

S Coutts	E Macdonald
----------	-------------

In attendance (Officers):

C Ferguson, Director of Corporate Services
J Manson, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
R Sinclair, Executive Manager – Assets, Commissioning and Procurement
D Black, Chief Internal Auditor
C Anderson, Senior Communications Officer
K Collins, Financial Accountant
E Cripps, Internal Auditor
J Johnson, Senior Assistant Accountant
M Forrester, Senior Assistant Accountant
R McNeillie, Internal Auditor
M Mulla, Performance and Improvement Officer
L Geddes, Committee Officer

Also:

P Kenny, Deloitte
D Peuters, Deloitte (*by telephone*)

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

Mr Duncan declared an interest in Agenda Item 2 “Annual Audit Report on the 2018/19 Audit – Shetland Islands Council Pension Fund” due to a family interest, and advised that he would vacate the chair and leave the room during the discussion.

Annual Audit Report on the 2018/19 Audit for Shetland Islands Council and the Zetland Educational Trust

The Committee considered a report by the Executive Manager – Finance (F-053-F) presenting the Annual Audit Report on the 2018/19 Audit for Shetland Islands Council and the Zetland Educational Trust (ZET).

The Executive Manager – Finance introduced the report, advising that there had been three minor changes to the accounts. Two of these changes reflected the recent resignation of Councillor Mark Burgess, and the other related to a change in the wording relating to the treatment of internal transactions.

With regard to the ZET, there had been no material changes to the unaudited accounts that had been considered by the Committee on 26 June. There had been some small disclosure corrections made to the Council's unaudited accounts - the accounting surplus had decreased by £2.71million and the net assets had decreased by £2.52million as a result of adjustments made. In addition to the recommendations made in the interim audit report, the External Auditor had made three further recommended improvements arising from the financial statements audit in relation to valuation of property assets, adoption of International Financial Reporting Standard 16, and review of financial statements. The External Auditor had confirmed an unmodified opinion, meaning that the accounts were free from material misstatement and presented a true and fair view of the Council's financial position.

He then introduced Mr Kenny, who outlined the key messages in the final report. The audit dimensions had included financial sustainability, financial management, governance and transparency, and value for money, and the detailed report presented in June had covered these elements in detail. The main conclusions were outlined in this report, and three significant risks had been identified in relation to recognition of grant income, valuation of property assets, and management override of controls. No instances had been identified in respect of the latter. The recognition of grant income related to a disclosure misstatement, and the income had been correctly recognised in the Comprehensive Income and Expenditure Statement. With regard to the valuation of property assets, the Shetland Leasing and Property Developments Limited (SLAP) transaction had been looked at in more detail. He was pleased to confirm a strong opinion that there had been a strong business case to support this. It should derive significant benefits to the Council in the medium to long term, and would be monitored to ensure that the benefits were realised. However there were some lessons to be learned in respect of due diligence, and he was pleased to note that the Council planned to have a full debrief. The action plan pertaining to recommendations for improvement was outlined in the report, and its implementation would be monitored going forward.

Responding to a question, Mr Kenny confirmed that the audit and the report had been carried out and prepared by a team of people, subject to review by himself and senior managers.

Some discussion took place with regard to the valuation of SLAP, and the Executive Manager – Finance advised that it was not possible to speculate whether or not Shetland Charitable Trust (SCT) would have accepted a lower price for SLAP, but there had been lengthy discussions in the lead up to the purchase. The report outlined Deloitte's view of the valuation, but he was assured that the Council had carried out due diligence in respect of the transaction and had been comfortable to proceed at that price.

It was questioned if a lower price could have been paid if the Council had undertaken an independent evaluation prior to the acquisition.

Mr Kenny advised that the art of property valuation was not perfect, and it would be very difficult to speculate what figure an independent valuer may have derived. However the Council's methodology was not one Deloitte would have used, based on advice from its own valuation experts. While the report stated the opinion that the price could have been up to £1.55million less, it was not possible to predict what conclusions an independent valuer would have come up with at the time, and there were a lot of forces that could apply in terms of valuation. While it was felt that the methodology had not been appropriate, it was not possible to come to a definite opinion in terms of the potential impact on the price. However there would have been merit in getting an independent valuation and, going forward, this would be a major lesson learned if the Council was ever to undertake a similar transaction.

The Director – Corporate Services advised that the approach undertaken by the Council was consistent with the approach that it used across its whole portfolio.

The Executive Manager – Assets, Commissioning and Improvement added that an independent valuation had been carried out a couple of years before the sale, and the Council either had to agree or not agree with that valuation. Commercial valuations were an extremely complex area of work – they were impacted by the purposes for which the valuation was being carried out, and the instruction and information given to the valuer. The issue here was that the value of assets and the value of the company were not necessarily the same thing.

Responding to questions regarding the Council's financial sustainability, Mr Kenny advised that the funding gap was fairly significant, based on current financial projections. It was also optimistic, based on the assumptions used. To rectify the funding gap over the medium term, the Council would have to prioritise and progress its transformation programme and other initiatives and proposals. It was something the auditors would continue to monitor, and he would expect the Council to update its financial strategy and base it on an up-to-date assessment of projections. It would be prudent for the Council develop its transformation programme to bridge the gap between the best and worst case scenarios.

The Executive Manager – Finance added that the Council would be presenting an updated medium-term financial plan in November. It would take account of everything that had changed, including external

factors that the Council was not in control of. A longer term financial plan would be presented in March. The service redesign programme intended to bridge the funding gap, but it would require more work.

He went on to confirm that it was considered that a £3.5million draw on reserves in the medium-term financial plan was considered unsustainable. There was a limit around what could be drawn from reserves as they had to be protected to generate returns. The Council's investments were not guaranteed to generate a 7.3% return every year, but they were expected to generate that over the longer term. It had not been possible to balance the budget last year without dipping into reserves. There was a gap between how much the Council spent and how much services cost, and these costs were always increasing. The Council would need to bring spending more into line with what it could afford.

It was noted that it was stated that training should be provided to the finance function following recent changes in key financial posts, and it was questioned what this related to.

The Director of Corporate Services advised that all staff had to complete a full induction programme and a personal development plan. She was entirely comfortable that staff in the finance function were more than capable of doing their jobs, and their personal development plans were up-to-date. Changes in key posts in local authorities were nothing new.

Responding to questions, the Executive Manager – Finance advised that he accepted the findings of the external auditors. The report was not a negative one, and it contained very positive messages. There were a number of improvements that could be made to the process, and a response had been prepared and plans were being put in place to set the Council in the right direction.

He also confirmed that there was some crossover between the work of the internal auditors and the external auditors. However the Council's internal audit team did not have too much input into this report as it pertained to the work of external auditors who took an independent view.

Mr Black added that the internal audit plan was intended to provide assurance to stakeholders about the adequacy of the internal control environment, and the external auditors would have an interest in the overall opinion of that. The internal audit team carried out specific audits and undertook testing and controls, and the external auditors were able to use information about this work in specific areas.

It was questioned what the auditors would consider to be "lower-priority areas", as referred to in the "Value for Money" section in the key messages of the report.

Mr Kenny explained that given the restraints on local authority finances, Councils had to acknowledge they could not be above average in all service performance areas. Some local authorities were to be congratulated for having robust discussions about service priorities and how better to achieve them. One way of doing this would be to disinvest

in services that were considered to be of lower priority. For example, one Council that was above average in roads maintenance had made a decision to bring performance down to average, and had used the funding to invest in priority areas.

In response to a query as to whether external impacts on Councils were taken into consideration, he went on to explain that auditors had to consider how the Council was performing within the constraints of the current financial envelope. However there was cognisance of external impacts.

It was questioned what stage the Council was at in developing its community empowerment arrangements, and the Executive Manager – Finance explained that the Council had identified its intentions in the report, and an update would be provided at the next meeting in November

During the discussion that followed, it was commented that the purchase of SLAP should be considered as a first-class deal that would benefit the people of Shetland, and that officers should be congratulated for getting SLAP within the Council's portfolio. The auditors had commented on the robustness of the business case and the longer-term benefits, and it could not be ascertained whether SCT would have accepted a lower price.

However concerns were also expressed about the short timescale and the way in which the purchase had been carried out, which could mean that the Council had spent £1.55million of public money on the purchase that could have instead been spent on public services. The difference in opinion on the price could have been resolved by having an independent valuation prior to purchase.

Concern was also expressed at the potential future funding gap, and the Chair commented that if the Scottish Government fulfilled its promise of full and fair ferry funding, this would reduce the gap and mean that the Council would not have to use its reserves. He went on to pay tribute to members and officers for the work they had carried out to date, but commented that there was more to be done to ensure that the Scottish Government fulfilled its obligations and did not treat Shetland differently to the other island groups in respect of lifeline ferry services.

Mr C Smith moved that the Committee approve the recommendations in the report, with the addition that a report detailing the timeframe for the Action Plan be presented within two cycles.

Mrs Hughson seconded.

Decision:

The Audit Committee:

- NOTED the findings of the 2018/19 audit as contained in the external auditor's annual report at Appendix 1

- NOTED the Action Plan as outlined in the Annual Report, and requested that a report detailing the timeframe be presented within two cycles
- CONSIDERED the verbal report by the external auditor
- CONSIDERED the audited Annual Accounts for 2018/19 (Appendix 2) for Shetland Islands Council
- CONSIDERED the audited Annual Accounts for 2018/19 (Appendix 3) for Zetland Educational Trust

(Mr Duncan vacated the Chair and left the meeting, and Mrs Hughson assumed the Chair)

10/19

Annual Audit Report on the 2018/19 Audit – Shetland Islands Council Pension Fund

The Committee considered a report by the Executive Manager – Finance (F-053-F) which presented the Annual Audit Report on the 2018/19 Audit for Shetland Islands Council Pension Fund.

The Executive Manager – Finance introduced the report and advised that there had been no material misstatements or errors identified since the unaudited accounts had been presented in June. The Pension Fund did not escape from the wider scope of the audit, and he was pleased to report that there were no additional concerns arising from this aspect of the audit.

He then introduced Ms Peuters who highlighted the significant risk – management override of controls – and the two areas of audit focus that were considered – completeness of investments and accuracy and timeliness of contributions. Management override of controls was a presumed significant risk for audits, and there were no issues arising from the testing performed. No significant issues had been identified in respect of completeness of investments, and a recommendation from the previous year had been adopted. There had been one issue identified with regard to accuracy and timeliness of contributions, and it was recommended that a monthly control was put in place so that contributions were amended accordingly for unauthorised sick leave. No significant deficiencies had been identified in respect of the wider audit dimensions, and no misstatements or disclosure deficiencies had been identified from the audit work to date. With regard to the outstanding items, it was now just the receipt of management representations letter that still required to be completed.

The Chair congratulated staff on the positive report received.

Decision:

The Audit Committee:

- NOTED the findings of the 2018/19 audit as contained in the External Auditor's annual report at Appendix 1
- CONSIDERED the verbal report by the External Auditor

- CONSIDERED the audited Annual Accounts for 2018/19 (Appendix 2) for Shetland Islands Council Pension Fund

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

11/19

Audit Scotland and other External Audit Reports

The Committee considered a report by the Executive Manager – Assets, Commissioning and Procurement (APC-07-F) which provided an opportunity for the Committee to consider and monitor progress on any recommended actions resulting from Audit Scotland and External Audit body reports, and to monitor compliance with the external advisors reports reporting policy and procedures.

The Executive Manager – Assets, Commissioning and Procurement summarised the main terms of the report, advising that in respect of EA194 Audit Scotland – Social Work in Scotland Impact Report, the report referred to had now been presented to the Employees' JCC.

The Chair requested that a briefing note be issued to Members to update them in respect of EA186 Care Inspectorate – Walter and Joan Gray (Care Home), and that a report be presented to the Committee at a later stage.

Decision:

The Audit Committee NOTED the report.

The meeting concluded at 11.15am.

.....
Chair



Shetland Islands Council

Agenda Item

1

Meeting(s):	Audit Committee	18 November 2019
Report Title:	Internal Audit Summary Report	
Reference Number:	CRP-25-19-F	
Author / Job Title:	Duncan Black Chief Internal Auditor	

1.0 Decisions / Action required:

- 1.1 That the Audit Committee:
1. NOTE the content of the report;
 2. NOTE that the report format includes links to the full audit reports for further information;
 3. COMMENT on the outcome on the findings of the audit work completed; and
 4. ADVISE the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

2.0 High Level Summary:

- 2.1 The attached Internal Audit Update Summary provides the Audit Committee with an overview of the work undertaken by Internal Audit to 31 October 2019 as part of the agreed 2019/20 Internal Audit Plan.
- 2.2 The report summarises the findings of each of the audits completed during that time, highlights any recommendations made and the audit opinion in light of the findings of the audit activity.
- 2.3 The detailed audit reports are available separately, together with agreed plans for addressing the recommendations.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Council's Corporate Plan, "Our Plan 2016-2020", states that:
"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".
- 3.2 Internal audit reports provide an independent assessment of the effectiveness and integrity of the Council's systems; providing assurance to the Council in this regard and with regard to Best Value.

4.0 Key Issues:

4.1 Internal Audit is an independent appraisal function within the Council. Its work is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors, and takes account of the work of the Council's external auditor.

4.2 As at 31 October 2019, five reviews have been completed and summary information for each review is provided below.

4.3 Payroll Verification

This audit was undertaken to gain assurance that employees currently being paid by the Council are bona fide and being paid correctly.

The scope of the audit included reviewing the arrangements for ensuring:

- All active employees on CHRIS (the payroll system) are currently employed;
- Contracted salary scale, employment status and contracted hours had been accurately recorded on CHRIS; and
- The parameters of CHRIS had been accurately updated to reflect current salary scales.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The one medium priority recommendation relates to ensuring that the payroll verification exercises undertaken by the payroll team include verification of additional data.

	High	Medium	Low
Number of recommendations	-	1	-

4.4 ParentPay

This audit was undertaken to gain assurance over the arrangements for the implementation, monitoring and use of ParentPay. The scope of the audit included ensuring:

- There are written policies and procedures in place for ParentPay, covering income for all events (school meals, school trips, etc.) and confirming that mechanisms are in place to ensure these are communicated as required;
- Pupil details are accurately set up on the system with concessions in place where required;
- Arrears and refunds are monitored/processed in accordance with agreed procedures; and
- Teacher schools meal payments are administered appropriately.

Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The medium priority recommendation relates to the creation of documented procedures for the administration of ParentPay, ensuring consistency of the administration across all schools.

	High	Medium	Low
Number of recommendations	-	1	-

4.5 Application Review - Integra

This audit was undertaken to identify and review key controls surrounding Integra (the Council's main financial system). The scope of the audit included reviewing the arrangements for:

- Application licencing and support;
- Documentation and procedures;
- User management;
- Change management;
- Data security; and
- Business continuity.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The three medium priority recommendations relate to ensuring:

- System user access is appropriate and leavers' access is timeously removed;
- A data processing agreement is put in place with the system provider; and
- Business continuity arrangements are in place for all business critical functions reliant on the system.

	High	Medium	Low
Number of recommendations	-	3	1

4.6 The full reports for the above reviews will be made available, along with other routine audit reports on the SIC website.

4.7 In addition to the above assurance reports, verification work has also been undertaken in relation to performance indicators and college credits/hardship returns. This work is undertaken prior to data being submitted to external bodies.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications:

6.1 Service Users, Patients and Communities:	The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council. This provides assurance to the Council with regard to the efficiency, effectiveness and economy of the Council's services and Best Value.
---	--

6.2 Human Resources and Organisational Development:	None arising directly from this report.	
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:	None arising directly from this report	
6.6 Assets and Property:	None arising directly from this report	
6.7 ICT and new technologies:	None arising directly from this report	
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

Contact Details:
Duncan Black, Chief Internal Auditor
duncan.black@glasgow.gov.uk
0141 287 4053



Shetland Islands Council

Agenda Item

X

Meeting(s):	Audit Committee Policy & Resources Committee	18 November 2019 25 November 2019
Report Title:	Scottish Household Survey	
Reference Number:	ACP-14-19	
Author / Job Title:	Robert Sinclair - Executive Manager – Assets, Commissioning and Procurement	

1.0 Decisions / Action required:

- 1.1 That the Audit Committee and Policy & Resources Committee 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.

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 Full Local Authority Tables for 2018 were published in October 2019 providing comparable information at Local Authority level. The full 2018 report for Shetland is linked here: [Scotland's People Local Authority Tables - SHETLAND](#)
- 2.4 The Shetland sample size for most indicators is 230 or higher (1 in 90 households). This is one of the highest proportionate sampling size in Scotland and produces consistent year-on-year results. Where sample size is too small to produce statistically significant results, these tables are omitted from the survey report.

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 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.”*
- 3.3 Five indicators in this report are used to monitor performance in the delivery of Shetland's Partnership Plan. These have been marked with an asterisk. *

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 Housing (Chapter 3 – Pages 25-36)

Table 3.3f (p30) – How well household is managing financially

30% of the Social Sector rented households “*do not manage well financially*”, the Scottish figure is 22%

Table 3.7a (p34) – Rating of neighbourhood as a place to live

75% of households rate their areas as “*very good*” places to live, the Scottish average is 57%.

Table 3.7b (p34) – Strength of belonging to immediate neighbourhood

84% of households rate their “Strength of belonging to their immediate neighbourhood as “*very strong*” or “*fairly strong*”. The Scottish average is 78%

Table 3.10a (p35) - Home adaptations that are already in place

31% of households have adaptations in place, compared to a Scottish average of 19%

4.2.2 Neighbourhoods & Communities (Chapter 4 – Pages 37-53)

Table 4.3 (p42) – People agreeing with statements about their neighbourhood strengths

64% of people “*strongly agree*” that “This is a neighbourhood where most people can be trusted”. The Scottish figure is 38%. Shetland significantly outperforms Scotland on each of the 6 measures in this area.

Table 4.7 (p44) – Strength of feeling of belonging to community *

84% of people “*very strongly*” or “*fairly strongly*” feel that they belong to their local community; this is a slight reduction from 90% in 2017. The Scottish figure is 78%.

Table 4.17 (p47) – Rubbish or litter lying around

The number of households reporting problems with rubbish or litter lying around has more than halved, from an average in recent years of around 20% to 10%.

Table 4.21 (p49) – Experience of neighbourhood problems

12% of Lerwick households have experienced problems with “Noisy neighbours / loud parties”, this compares to 9% for similar sized towns throughout Scotland. Also, 11% of Lerwick households have problems with neighbour disputes compared with 6% in Scotland.

Table 4.28 (p52) – Prepared for events like severe weather or flooding

The number of households “*fully prepared*” for events like severe weather or flooding is 20%, compared to 6% in Scotland.

4.2.3 Economic Activity (Chapter 5 – Pages 54-67)

Figure 5.6 (p62) – Adults aged 16-64 currently in work

In Shetland, over 80% of women are “in work”, this compares to 66% in Scotland. In Shetland 76% of male respondents were employed full-time, this compares to only 58% for Scotland.

4.2.4 Finance (Chapter 6 – Pages 68-74)

Figure 6.1 (p69) – How households are managing financially by year

Historically, Shetland has outperformed Scotland in this measure. 2018 is the first time Shetland has had a higher proportion of households than Scotland that “*Don't manage well*” or “*Are in deep financial trouble*” (11% compared to 9%).

4.2.5 Internet (Chapter 7 – Pages 75-81)

Figure 7.1 (p77) – Households with home internet access by year

For the past 4 years, Shetland has reported higher household connectivity than Scotland. This is now at 94% in Shetland compared to Scotland's 87%.

Figure 7.7 (p78) & Table 7.2 (p79) – Internet Usage

While Shetland's internet usage is higher (96% compared to 87%), internet access “on the move” is significantly less (37% compared to 54% in Scotland). However, the rise in “on the move” internet since 2013 (6% to 37%) suggests that it's signal availability rather than choice that is behind the increase.

4.2.6 Physical Activity and Sport (Chapter 8 – Pages 82-93)

Figure 8.1 (p83) – Participation in physical activity/sport in the last four weeks *

Shetland has a very similar participation profile to Scotland; this now includes cycling which, historically, Shetland has lagged behind Scotland.

Figure 8.4 (p92) – Satisfaction with local authority sport and leisure facilities

Although showing a decrease in the past 4 years, those “very/fairly satisfied” with “local authority” sport and leisure facilities remains significantly higher in Shetland (75%) compared to Scotland (47%). For the purposes of this survey, this included the Recreation Trust facilities. Actual users of the facilities (Table 8.5) also shows a reduction from 97% last year to 90% this year.

4.2.7 Local Services (Chapter 9 – Pages 94-99)

Very or fairly satisfied with:	2010	2012	2013	2014	2015	2016	2017	2018
Shetland								
Local Health Services	84	82	77	73	74	80	77	80
Local Schools	93	94	92	86	87	89	89	79
Public transport	50	65	60	56	55	71	72	63
% satisfied with all 3 *	48	59	48	42	42	59	55	47
Scotland								
Local Health Services	86	87	85	86	83	83	82	81
Local Schools	83	83	81	79	74	73	70	71
Public transport	75	72	71	75	74	72	69	65
% satisfied with all 3	64	63	60	62	57	56	52	52

Table 9.1 (p99 and above) – Percentage of people very or fairly satisfied with the quality of public services delivered

Schools satisfaction remains higher than Scotland but has dropped significantly this year to the lowest level for over a decade. Public Transport satisfaction had risen significantly in the previous 2 surveys but has now returned to previous values. Local Health Services is now similar to Scottish levels. Further analysis in Table 9.3 shows Local Health Service satisfaction in Lerwick has risen from 2017's result of 53% to this year's figure of 74%.

Agree with these statements:	2015	2016	2017	2018	Scotland 2018
Shetland Islands Council					
Good at communicating services	51	59	51	57	40
High quality services	60	66	67	64	46
Good at communicating performance	50	46	43	41	34
Services designed for needs	38	48	43	43	33
Does its best with the money	31	34	33	44	43
Addressing key issues	43	43	41	43	33
Good at listening	23	26	22	25	22
I can influence decisions *	28	27	32	25	20
I want more involvement in decisions *	46	41	42	35	34

Table 9.4 (full table p99,extract above) – Percentage agreeing with various statements about local authority services by year

Shetland now scores higher than Scotland in every category including, for the first time, "Does its best with the money".

Further analysis in Figure 9.3 (p98) does show a significant drop in the youngest, 16-39 age category that want to be "*more involved in decisions*" (38% down from 62% in 2017).

4.2.8 Environment (Chapter 10 – Pages 100-110)

Figure 10.5 (p105) – "I understand what actions people like myself should take to help tackle climate change"

In Shetland 80% agreed with the above statement compared to 92% last year. The Scottish figure is 74%.

4.2.9 Volunteering (Chapter 11 – Pages 111-128)

Figure 11.1 (p114) – Whether provided unpaid help to organisations or groups in the last 12 months

Shetland continues to report "formal" volunteering at almost double the national rate (47% vs 26%). Further analysis in Figure 11.2 shows volunteering in the 16-39 age group at 45% compared to 25% nationally.

Table 11.5 (p117) – Shows that, even when comparing Shetland to geographically similar areas elsewhere, Shetland still significantly outperforms in volunteering for groups.

4.2.10 Culture and Heritage (Chapter 12– Pages 127-150)

Satisfaction with Local Authority cultural services: "Very/fairly satisfied"	2015	2016	2017	2018	Scotland 2018
Libraries	76	74	67	62	45
Museums and Galleries	83	85	81	78	42
Theatres and concert halls	77	77	74	74	43

Table 12.17 (full table p145, extract above) – The figures above are for **all** respondents, not just those respondents who used the services. For users of the services in the last 12 months, table 12.18 (p146) shows the "very/fairly satisfied" results are: Libraries 93%, Museums & Galleries 95% and Theatres & Concert Halls 94%.

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:	The high employment rate indicated in this survey will impact on the council's ability to recruit.
6.3 Equality, Diversity and Human Rights:	Section 2 of the report contains some indicators related to protected characteristics. Tables 4.25 and 4.26 shows discrimination against some protected characteristics. The high proportion of women in work will be helped by the Council's support of flexible working arrangements including part-time work predominantly carried out by women throughout Shetland.
6.4 Legal:	None
6.5 Finance:	There are no financial implications arising directly from this report
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 sample size (230 people, around 1 in 90 households); results are consistent year-on-year.
6.10 Policy and Delegated Authority:	The Audit Committee has responsibility for performance management. The linked report gives Members an opportunity to compare local performance against national averages. As outlined in Section 2.2.1.4 of the Council's Scheme of Administration and Delegations, the Policy & Resources Committee's remit includes " <i>Ensure the effectiveness of the Council's planning and performance management framework</i> ".
6.11 Previously considered by:	N/A

Contact Details:

Jim MacLeod

Performance & Improvement Adviser

james.macleod@shetland.gov.uk

11 November 2019

Appendices: None

Background Documents:

[Scotland's People Local Authority Report - SHETLAND](#)