

Shetland Islands Council



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If calling please ask for
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Date: 6 March 2020

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Council Chamber, Town Hall, Lerwick
Monday 9 March 2020 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 18 November 2019 (enclosed).

Items	
1.	Annual Audit Plans 2019/20 for Shetland Islands Council and Shetland Islands Council Pension Fund <i>F-018</i>
2.	Internal Audit – Audit Plan 2020/21 <i>CPR-06</i>
3.	Internal Audit Summary Reports <i>CRP-07</i>
<i>The following item contains Exempt Information</i>	
4.	External Provider Residential and Day Care Services, Walter and Joan Gray, Scalloway <i>CC-11</i>



MINUTES

A & B

Audit Committee

Council Chamber, Town Hall, Lerwick

Monday 18 November 2019 at 2pm

Present:

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

Apologies:

J Fraser

In attendance (Officers):

C Ferguson, Director of Corporate Services
J Manson, Executive Manager – Finance
R Sinclair, Executive Manager – Assets, Commissioning and Procurement
D Black, Chief Internal Auditor
K Johnston, Team Leader – Legal
J MacLeod, Performance and Improvement Adviser
E Cripps, Internal Auditor
R McNeillie, Internal Auditor
L Adamson, Committee Officer

Also In Attendance:

M Lyall
J Campbell, Senior Audit Manager – Glasgow City Council
F Scott, Senior Audit Manager – Glasgow City Council

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

In referring to the pre-election period for the UK Parliamentary General Election, the Chair reminded Members on the Council's pre-election guidance when discussing any items on the agenda.

Declarations of Interest

None.

Minutes

The Committee confirmed the minutes of the meeting held on 6 May 2019 on the motion of Mr Leask, seconded by Ms Manson.

The Committee confirmed the minutes of the meeting held on 26 June 2019 on the motion of Mr Scott, seconded by Mr McGregor.

The Committee confirmed the minutes of the meeting held on 25 September 2019 on the motion of Mr McGregor, seconded by Mr Leask.

Min Ref.: 11/19 – Audit Scotland and other External Audit Reports

In referring to the final paragraph, the Chair said that he was unaware of the briefing note being issued to Members in respect of EA186 Care Inspectorate – Walter and Joan Gray (Care Home) as had been requested at the meeting in September. The Chair asked for the briefing note to Audit Committee Members to be followed up, and also for a report to Committee within two cycles, should that timescale be appropriate.

12/19 Internal Audit Summary Report

The Committee considered a report by the Chief Internal Auditor (CRP-25-19-F) that provided an overview of the work undertaken by Internal Audit to 31 October 2019 as part of the agreed 2019/20 Internal Audit Plan.

In introducing the report, the Chief Internal Auditor provided an overview of the scope and approach taken on the audits as reported in Section 4, and he advised that the full reports would be made available on the Council's website. He confirmed there were no major issues to report, and that Internal Audit would continue to provide the Committee with audit findings as part of the Internal Audit Plan.

In response to a question regarding the audit undertaken of Integra, being the Council's main financial system, the Chief Internal Auditor outlined the scope of the audit, and he confirmed that no concerns were found in that regard. He added that any question as to whether the system continued to be fit for purpose would need to be directed to the users of the system and management.

In response to a question, it was confirmed that the full audit reports were currently available on the Council's website.

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

Decision:

The Audit Committee NOTED the contents of the report.

Scottish Household Survey

The Committee considered a report by the Executive Manager – Assets, Commissioning and Procurement (ACP-14-19-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.

The Performance and Improvement Adviser introduced the report, highlighting a number of local results particularly significant to the Council in terms of its Corporate Plan and Shetland Partnership Plan, as set out in Section 4.

In responding to a question on the findings reported at Section 4.2.1 - Housing, at Table 3.3f, namely “How well household is managing financially” the Performance and Improvement Adviser confirmed that figures were available on all housing tenures. He undertook to forward the relevant information to Members on the Committee.

During the discussion, the Chair referred to the table at 4.2.7 and enquired on any justification for the recent drop in the satisfaction rate relating to “local schools”. The Performance and Improvement Adviser said that while there did not appear to be any obvious reason, there was however speculation that there could be concerns on the availability of certain subjects at schools and teacher vacancies in particular subjects.

In responding to comments regarding the improved satisfaction rates with local health services as referred to in the table at 4.2.7, and also that satisfaction with the Lerwick Health Service has risen from 53% in 2017 to 74% in 2018, the Performance and Improvement Adviser referred to the recent improved arrangements to get an appointment at the Lerwick Health Centre and he said that the advanced nurse practitioner was also proving a popular service. The Chair commented that he hoped satisfaction rates would continue to improve going forward.

Reference was made to the unexpected findings reported at Section 4.2.8, that in response to the statement “I understand what actions people like myself should take to help tackle climate change”, only 80% had agreed with the statement compared to 92% last year. During the discussion, comment was made to the expectation that the figure would increase in future years with the recent additional publicity around climate crisis and realisation that the small changes were not making any significant difference to tackle climate change.

During debate, comment was made on the generally positive report in terms of satisfaction rates with local services, however in referring to the table at 4.2.7 concern was expressed at the noted decrease in satisfaction with local schools as reported in 2018. In that regard, it was suggested that this area should be kept under review, and a call was made for a similar report to Committee within two cycles. The Director of Corporate Services however explained that the Scottish Household Survey results formed an annual report and therefore it would prove difficult to provide any worthwhile comparisons within two cycles. She would however look

into what other relevant information could be reported to Committee within an earlier timescale.

During further debate, Members commented on potential reasons for the recent decrease in satisfaction rates with local schools, and also on the increased satisfaction rate relating to the statement "does its best with money", where for the first time Shetland had scored higher than Scotland.

In referring to the high number of areas where Shetland has performed ahead of Scotland, the Chair commended officers and the various agencies and organisations.

Decision:

The Audit Committee NOTED the contents of the report.

The meeting concluded at 2.36pm

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Chair



Meeting(s):	Audit Committee	9 March 2020
Report Title:	Annual Audit Plans 2019/20 for Shetland Islands Council and Shetland Islands Council Pension Fund	
Reference Number:	F-018-F	
Author / Job Title:	Executive Manager - Finance	

1.0	Decisions / Action required:
1.1	That the Committee CONSIDER and NOTE the contents of the Audit Plans 2019/20 for Shetland Islands Council and Shetland Islands Council Pension Fund, from the Council's external auditors, Deloitte LLP.
2.0	High Level Summary:
2.1	The Annual Audit Plans detailed at Appendix 1 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 2019/20.
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	<p>The Annual Audit Plans present the planned audit work by the Council's external auditors, Deloitte LLP, for the 2019/20 financial year; the fourth year of a five-year appointment. Their core audit work includes:</p> <ul style="list-style-type: none"> • perform an audit of the annual accounts and express specified audit opinion; • consider and report on the audit dimensions, Best Value arrangements, Strategic Audit Priorities and Statutory Performance Information; • contribute to performance audits (including performance audit reports, overview reports and impact reports); • share audit intelligence with Audit Scotland including highlighting potential statutory reports; • provide assurance on Whole of Government Accounts; • provide information on cases of fraud; • contribute to National Fraud Initiative report; • contribute to the Shared Risk Assessment; and • certify grant claims.

4.2	The Executive Manager – Finance has been consulted in the development of the Annual Audit Plans.
5.0	Exempt and/or confidential information:
5.1	None.
6.0	Implications :
6.1 Service Users, Patients and Communities:	None arising directly from this report. Any implications identified from the audit work will be taken forward and actioned.
6.2 Human Resources and Organisational Development:	None arising directly from this report. Any implications identified from the audit work will be taken forward and actioned.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report. Any implications identified from the audit work will be taken forward and actioned.
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 2019/20. Any implications identified from the audit work will be taken forward and actioned.
6.5 Finance:	The audit fee for 2019/20 for Shetland Islands Council is £206,338 and the fee for Shetland Islands Council Pension Fund is £28,447. The work will also include the audit of Zetland Educational Trust at an additional fee of £400. Any implications identified from the audit work will be taken forward and actioned.
6.6 Assets and Property:	None arising directly from this report. Any implications identified from the audit work will be taken forward and actioned.
6.7 ICT and new technologies:	None arising directly from this report. Any implications identified from the audit work will be taken forward and actioned.
6.8 Environmental:	None arising directly from this report. Any implications identified from the audit work will be taken forward and actioned.
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. Any implications identified from the audit work will be taken forward and actioned.
6.10 Policy and Delegated Authority:	The Audit Committee has terms of reference to be consulted on the external audit strategy and plan, review reports from the Council's external advisors and review action on external audit recommendations.

6.11 Previously considered by:	n/a	n/a
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Contact Details:

Kara Collins, Financial Accountant, kara.collins@shetland.gov.uk, 19 February 2020

Appendices:

Appendix 1 – Shetland Islands Council Annual Audit Plan for 2019/20

Appendix 2 – Shetland Islands Council Pension Fund Annual Audit Plan for 2019/20



Shetland Islands Council

Planning report to the Audit Committee on the audit for the year ending 31 March 2020

Issued 12 February for the meeting on 9 March 2020

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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.

I have pleasure in presenting our planning report to the Audit Committee ("the Committee") of Shetland Islands Council ("the Council") for the year ending 31 March 2020 audit. I would like to draw your attention to the key messages of this 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. 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.

Key Risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Council's key priorities and risks as well as any risks identified by Audit Scotland. The following specific risks have been identified.

Financial sustainability – There is a risk that the Business Transformation Programme (BRP) and Service Redesign Programme (SRP) are not robust enough to allow the benefits to be realised.

We will assess the work being done by the newly appointed Executive Manager to progress these programmes. We will also review the work being done to update the Medium Term Financial Plan (MTFP).

Financial management – There remains a risk in relation to the delivery of the capital programme. We will review the updated Property and Asset Management Strategy and assess how this links to the MTFP, BTP and SRP. We will also continue to review the Council's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

Governance and transparency – There is a risk that the Council's self evaluation is not sufficiently developed to demonstrate continuous improvement. We will consider the work being done by the Council in response to the recommendations made in our 2018/19 interim report.

There is also a risk that the Council is not meeting its obligations under the Community Empowerment Act. We will assess the work being done to develop locality plans as required under the Act.

Introduction (continued)

The key messages in this report (continued)

Audit Dimensions (continued)

Governance and transparency (continued)

There continues to be an ongoing risk that the Integration Joint Board (IJB) does not achieve the full benefits of integration. As part of our separate audit work on the IJB, we will assess the work being done to review the Integration Scheme.

Value for money – There is an ongoing risk that members are not provided with the required information to monitor the Council's performance and focus on continuous improvement. We will continue to review the Council's performance, the Council's reporting and monitoring of these and the actions taken to improve the performance of the Council.

While not identified as a specific risk, we will monitor the progress with the winding up of Shetland Leasing and Property Developments Limited (SLAP) and set up of the new College.

Other Responsibilities

As part of our work on the audit dimensions, we will assess the effectiveness and appropriateness of the arrangements for each of the Accounts Commission's **Strategic Audit Priorities** and the requirements under the **2018 Statutory Performance Information Direction** along with our work on **Best Value**.

Regulatory Change

IFRS 16, Leases, will apply from 2020/21, and will require disclosure in the 2019/20 financial statements of the expected impact on transition.

We would suggest that the Audit Committee receive reporting from management on the implementation of the new standard. We will report specifically on the scope of our work this year, and recommendations for 2020/21.

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 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.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 33 to 36 of this paper.

Pat Kenny
Audit director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader 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 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.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Oversight of external audit

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- 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 (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

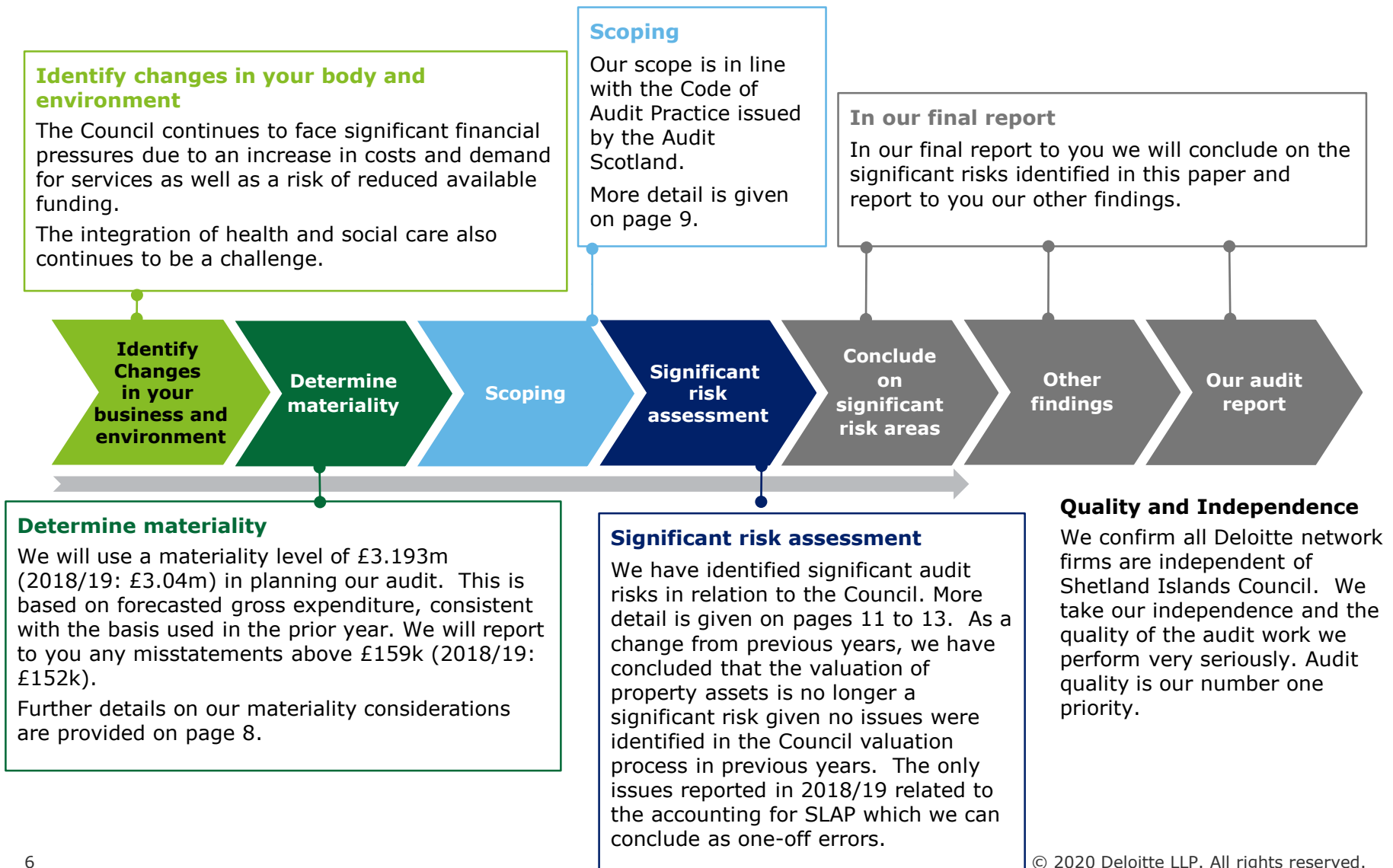
Whistle-blowing and fraud

- 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.

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

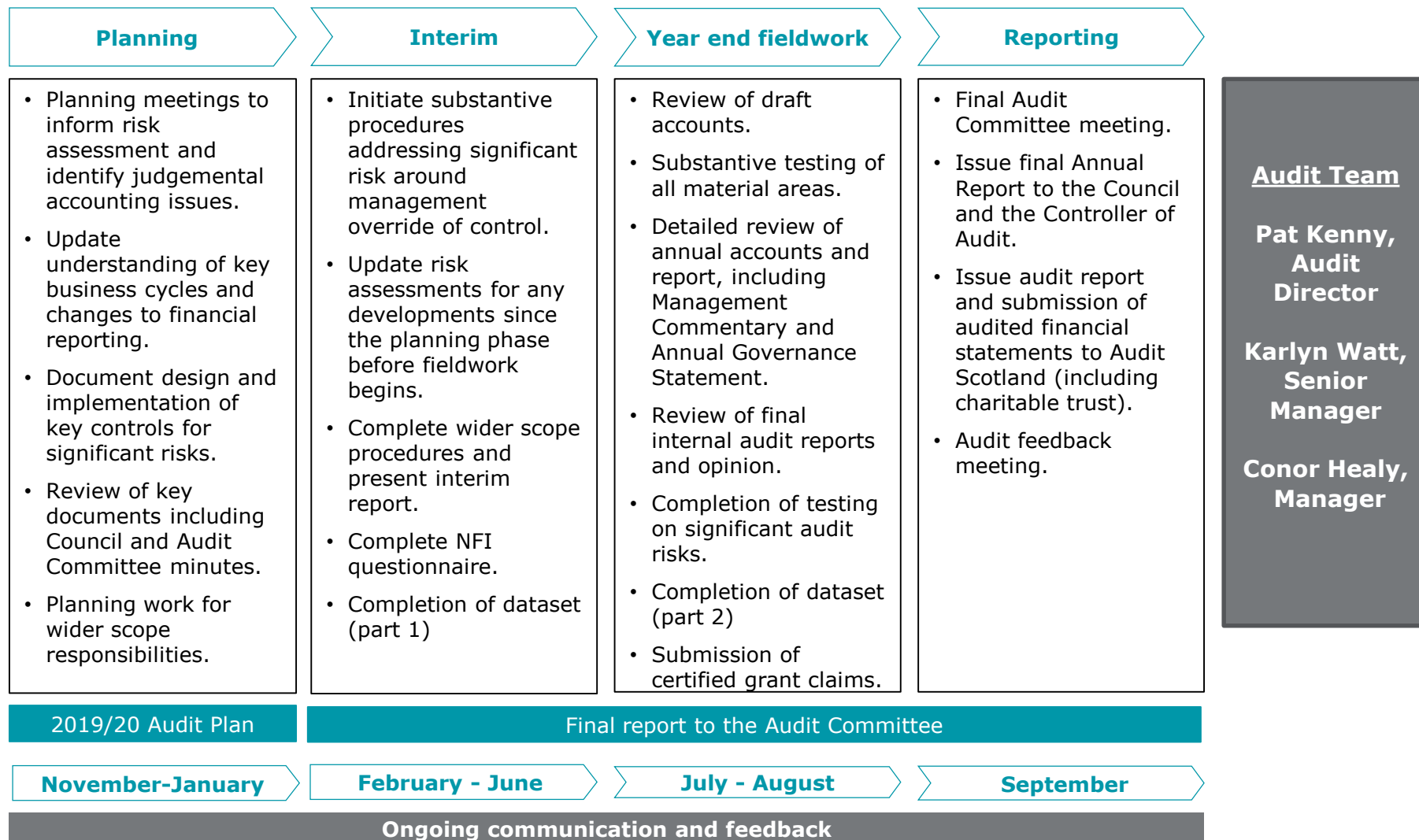
Our audit explained

We tailor our audit to your Council and your strategy



Continuous communication and reporting

Planned timing of the audit



Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined materiality for the Council as £3.193m (2018/19: £3.043m) and performance materiality as £2.554m (2018/19: £2.434m) based on professional judgement and risk factors specific to the 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 (adjusted for net contributions to the IJB) as the benchmark for determining materiality and applied 80% as performance materiality.
- This approach is consistent with our prior year materiality calculation.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of our clearly trivial threshold which is £159k (2018/19: £152k).
- 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 threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

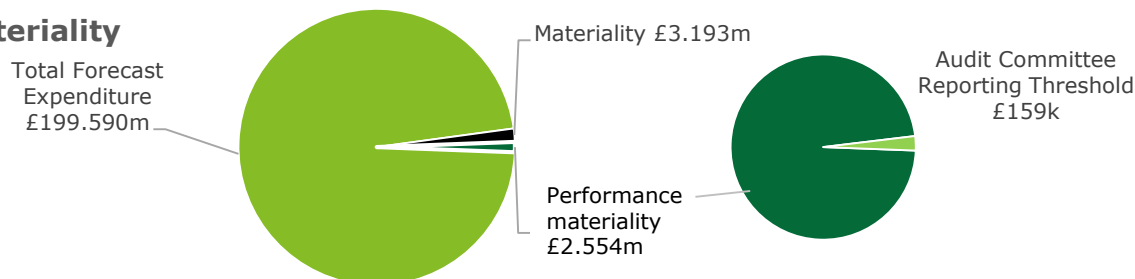
We will:

- Report the materiality benchmark applied in the audit of the Council; and
- provide comparative data and explain any changes in materiality, compared to prior year, if appropriate.

Group scoping

Our planning work is based on the assumption that no group accounts will be required for 2019/20. Should this position change, we will revisit our materiality benchmark accordingly.

Materiality



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.



Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an audit of the annual accounts and express specified audit opinion	Annual audit plan Independent auditor's report	9 March 2020 23 September 2020
Consider and report on the audit dimensions, Best Value arrangements, Strategic Audit Priorities and Statutory Performance Information	Annual audit plan Interim report Annual audit report	30 March 2020 24 June 2020 23 September 2020
Contribute to performance audits (including performance audit reports, overview reports and impact reports)	Dataset returns	8 May 2020 (part 1) 14 August 2020 (part 2)
Share audit intelligence with Audit Scotland including highlighting potential statutory reports	Current issues returns	17 January 2020 20 March 2020 7 August 2020 23 October 2020
Provide assurance on Whole of Government Accounts (WGA)	Assurance statement on WGA returns	28 September 2020
Provide information on cases of fraud	Fraud Returns	30 November 2019 28 February 2020 31 May 2020 30 August 2020
Contribute to National Fraud Initiative (NFI) report	NFI audit questionnaire Reference, if necessary, in annual audit report	28 February 2020 30 September 2020
Contribute to the Shared Risk Assessment	Information returns Any locally agreed output	As required
Certify grant claims	Certificate in support of grant claims	As required

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 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 will be collated and the impact on the extent of substantive audit testing required will be considered.

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 accounts 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.

Audit Scotland has published good practice guides in relation the Annual Report and the Governance Statement to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Council consider during drafting.

Statutory Other Information

In addition to the financial statements, we are required to consider whether the Management Commentary and Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements. In performing this work, we will refer to the Financial Reporting Council report issued in December 2018 following an audit quality thematic review of auditors' work on other information which identified a number of instances when insufficient work was performed to ensure that good practice is followed.

Obtain an understanding of the Council and its environment including the identification of relevant controls.







Identify risks and controls that address those risks.

Carry out "design and implementation" work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

Significant risks Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Level of management judgement	Page no.
Recognition of grant income			Design and implementation		12
Management override of controls			Design and implementation		13



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.

Key components of income for the Council are summarised in the table below. The Revenue Support Grant and Non-Domestic Rates income 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% to third party evidence therefore there is little scope for manipulation. Similarly, the income from the IJB relates to services Commissioned from the Council and can be verified 100%. Council tax and housing rent 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.

The significant risk is pinpointed to the recognition of grant income, comprising capital grants and contributions and service specific grants.

Grant income is a significant risk due to:

- management judgement in 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.

Type of income	2018/19 (£m)	Significant risk
<u>Taxation and Non-Specific Grant Income</u>		
Council tax income	9.372	
Non domestic rates	23.851	
Revenue support grant	56.727	
Capital grants and contributions	6.461	✓
<u>Service Income</u>		
Grants credited to services	18.263	✓
Housing Benefit Subsidy	3.137	
Housing Revenue Account	6.965	
IJB commission income (book entry)	22.553	
Harbour Account	30.237	
Other Service Income	15.314	

Our response We will perform the following:

- assess the design and implementation of the 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.

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) 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 estimates and judgements in the financial statements are those which we have selected to be the significant audit risks around recognition of grant income and valuation of property assets. This is inherently the areas in which management has the potential to use their judgement to influence the financial statements.

Planned audit challenge

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Journal testing

- We will test the design and implementation of controls over journal entry processing.
- Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates and judgements

- We will test the design and implementation of controls over key accounting estimates and judgements.
- We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020.

Significant and unusual transactions

- 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.
-

Other areas of focus

Pension Liability

We will engage our pension specialists to challenge the actuarial assumptions

Risk identified

The Council participates in two defined benefit pension schemes;

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Shetland Islands Council Pension Fund, administered by the Council.

The Council recognised a net pension liability of £209.9m in 2018/19, an increase from £165.2m in 2017/18. The increase was as a result in changes in assumptions, specifically the discount rate has reduced by 0.5% and salary increase rate has increased, together with the impact of McCloud.

Hymans Robertson LLP are the Council's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements.

The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies which have been considered as appropriate in previous years and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.

Planned audit challenge

We will perform the following procedures to address the above risk:

- obtain a copy of the actuarial report produced by Hymans Robertson LLP and agreed in the disclosures to notes in the accounts;
 - review and challenged the assumptions made by Hymans Robertson LLP, including benchmarking by our pension specialists;
 - review the disclosures within the accounts against the Code; and
 - assess the independence and expertise of the actuary supporting the basis of reliance upon their work.
-

Other areas of focus (continued)

Expenditure recognition

Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 12, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This has therefore not been assessed as a significant risk area, but will continue to be an area of audit focus.

Planned audit challenge

We will perform the following procedures to address the above risk:

- perform focused testing of accruals and prepayments made at the year end; and
 - performing focused cut-off testing of invoices received and paid around the year end.
-

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. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Council's key priorities and risks as well as any risks identified by Audit Scotland. We have set out below our identified audit risks in relation to the audit dimensions and proposed response. In addition, we will follow up the progress made in relation to our previous years recommendations.

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
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.	<p>As reported in our 2018/19 annual audit report, the Council is not in a financially sustainable position. While it is aware of its funding gap in the short-to-medium term and is taking action to address this, it has planned an unsustainable draw on reserves to address the funding gap in 2019/20 and had not identified the savings required to close the £15.6m funding gap by 2023/24.</p> <p>We highlighted the importance of prioritising and progressing transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.</p>	<p>There is a risk that the BRP and SRP are not robust enough to allow the benefits to be realised.</p> <p>We will assess the work being done by the newly appointed Executive Manager to progress the BTP and SRP, including the governance arrangements that underpin the planning and delivery and how the benefits being achieved are being tracked.</p> <p>We will also review the work being done to update the MTFP and how the funding gap is being linked to the BRP and SRP activities.</p>
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	<p>We concluded in 2018/19 that the Council generally has effective financial planning and management arrangements in place. We did, however, highlight particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget.</p>	<p>There remains a risk in relation to the delivery of the capital programme. We will review the updated Property and Asset Management Strategy and assess how this links to the MTFP, BTP and SRP.</p> <p>We will continue to review the Council's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
Financial management (continued)	In accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks, and false invoicing) is a risk across the public sector. We will therefore consider the Council's controls and processes as a matter of particular focus.	There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption. We will therefore evaluate the arrangements that the Council has in place to mitigate this risk.
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.	<p>In 2018/19 we concluded that the Council promotes a culture of openness and transparency.</p> <p>We recommended that the Council needs to significantly improve its approach to self assessment and highlighted the importance of developing a self assessment programme.</p> <p>We also concluded that the Council was not meeting all of its obligations under the Community Empowerment Act. We recommended that it needed to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.</p>	<p>While not identified as a specific risk, we will continue to monitor the Council's approach to governance and transparency.</p> <p>There is an ongoing risk that the Council's self evaluation is not sufficiently developed to demonstrate continuous improvement. We will consider the work being done by the Council in response to the recommendations made in our 2018/19 interim report.</p> <p>There is also an ongoing risk that the Council is not meeting its obligations under the Community Empowerment Act. We will assess the work being done to develop locality plans as required under the Act.</p>
	In relation to the IJB, our 2018/19 audit we highlighted that there are a number of challenges facing health and social care integration, including financial planning, resourcing and capacity, blurring of roles and perceived difficulties with the Integration Scheme. We highlighted that the Council needs to work with its partners in the NHS and IJB to address these issues, which can be progressed through a review of the Integration Scheme required by mid 2020.	There is an ongoing risk that that the IJB does not achieve the full benefits of integration. We will consider the ongoing work to review the Integration Scheme as part of our separate audit of the IJB.

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<p>In 2018/19 we concluded that while the Council continues to fare well against the national average, this comes at a substantial financial cost. Given the current financial position, we highlighted the need for the Council to consider the targets it sets.</p> <p>We concluded that substantial improvement was needed in relation to performance monitoring.</p> <p>We considered that, if appropriately managed, progressed and monitored, the Council should achieve value for money from the decision to purchase SLAP and progress with the College Merger.</p>	<p>There is an ongoing risks that members are not provided with the required information to monitor the Council's performance and focus on continuous improvement. We will continue to review the Council's performance, the Council's reporting and monitoring of these and the actions taken to improve the performance of the Council.</p> <p>While not identified as a specific risk, we will monitor the progress with the winding up of SLAP and set up of the new College.</p>

Wider scope requirements (continued)

Other responsibilities

Best Value (BV)

We have a duty to be satisfied that local government bodies have made proper arrangement for securing BV. 2019/20 is year four of the agreed five-year approach to auditing BV in Councils. A key feature of the approach is the Controller of Audit providing a Best Value Assurance Report (BVAR) to the Accounts Commission for each Council once over the five year period.

Shetland Islands Council is not scheduled to be reported on in 2019/20. Our BV audit work in 2019/20 will be integrated into our audit approach, including our work on the audit dimensions discussed on pages 16 to 18, and will be reported in our interim and annual audit reports.

The Islands (Scotland) Act 2018

[The Islands \(Scotland\) Act 2018](#) received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities.

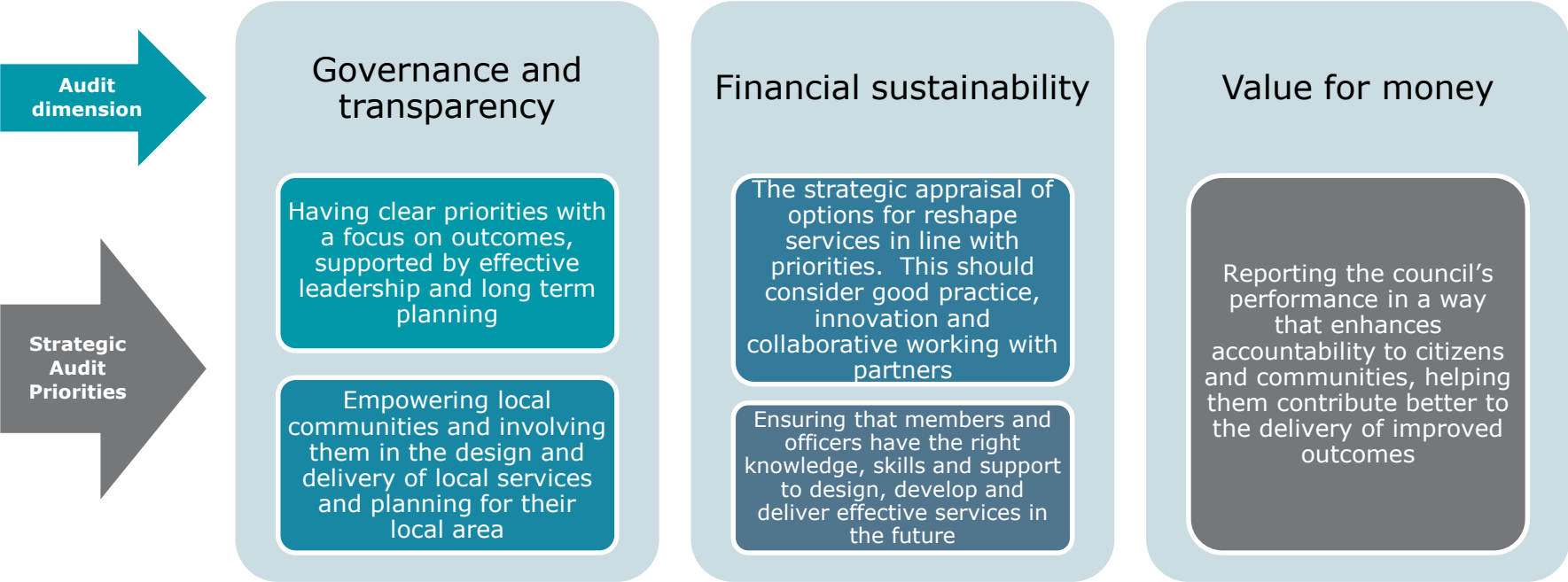
In our 2019/20 audit we will consider the implications of the Act as part of our consideration of BV arrangements.

Wider scope requirements (continued)

Other responsibilities

Strategic audit priorities

In its 2019-24 strategy, the Accounts Commission sets out five **Strategic Audit Priorities** as set out below. We will assess the effectiveness and appropriateness of the arrangements for each strategic audit priority based on our work carried out to date over the audit appointment and report in our overall conclusion in the corresponding audit dimension in our annual audit report.



Wider scope requirements (continued)

Other responsibilities (continued)

Councils' Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that Councils must publish. This responsibility links with the Commission's BV audit responsibilities. In turn, Councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission issued a revised **2018 Statutory Performance Information Direction** in December 2018 which requires a Council to report on:

- performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- Its own assessment and independent audit assessments of how it is performing against its duty of BV, and how it plans to improve these assessments; and
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

As this is the first year of the direction, we will evaluate the effectiveness and appropriateness of the arrangements at the Council to fulfil these requirements. This will be linked to our work carried out on the Commission's strategic audit priority in respect of reporting the Council's performance in a way that enhances accountability to citizens and communities as discussed further on page 20.

National Fraud Initiative (NFI)

All Councils are participating in the NFI 2018/19. Audit Scotland expects bodies to investigate all recommended matches based on findings and the risk of error or fraud by 30 September 2019, with the results recorded on the NFI system.

We will be required to complete and submit a questionnaire by 28 February 2020. The information from this will be used in Audit Scotland's next NFI report due to be published in the summer of 2020.

Wider scope requirements (continued)

Other responsibilities (continued)

Sector overview/ Annual performance reports

As in previous years, the Accounts Commission will publish an annual performance report covering the local government sector. This report uses information from the audited accounts and the Annual Audit Reports and therefore much of the required information is generally already available from the core audit work. However, we will be requested by Audit Scotland to provide important supplementary information collected as datasets. We will share these with management as soon as they are available.

Performance Audits

As local auditors, we play a key role in delivering the five year rolling work programme for performance audits carried out by Audit Scotland's Performance Audit and Best Value Group (PABV). Audit Scotland plan to publish the following report which is anticipated to involve local auditor input during the 2019/20 audit year:

Title	Objective	Local auditor input	Timescale for input
Waste management	To assess how well Scotland is performing in meeting its current and future waste management targets	To provide information on local, regional and national waste management arrangements, including cost, investment, volume and Landfill Tax data. Guidance will be provided, if required	October to December 2020

Impact reports

We will also be requested to provide information to support assessing the impact of previously published performance audit reports. Audit Scotland plan to assess the impact of the report "**Council's use of arm's length organisations**" between March and May 2020 and the report "**Children and young people's mental health**" during April/ May 2020.

Wider scope requirements (continued)

Other responsibilities (continued)

Shared Risk Assessment and Joint Scrutiny Planning

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks. The scrutiny bodies involved include the Care Inspectorate, Education Scotland and the Scottish Housing Regulator.

The Shared Risk Assessment (SRA) process was established by the SSG as the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at each council.

Following a review of the SRA, there will be a greater focus in 2019/20 on coordinating and reporting on scrutiny at a national level. An Operational Sub-group, chaired by the Care Inspectorate, is now responsible for producing, updating and reporting on the National Scrutiny Plan (NSP). The group has responsibility for the operational development of the new approach to sharing intelligence, including identifying and responding to any issues in how scrutiny bodies work together or escalating these to SSG if they cannot resolve them.

The arrangements for coordinating scrutiny at a local level continue to include a Local Area Network (LAN) for each Council. As your local auditor, we lead the LAN for Shetland Islands Council, and the results of discussions between the LAN and the Council feed into the NSP. We will provide a return to the Operational Sub group.

Greater clarity about the rationale for scrutiny activity will be provided in the NSP. The Operational Sub-group issued an NSP on 30 September and will update it every six months (planned for March and September 2020) which we will discuss with the Council.

Routine meetings of the LAN members are planned and there will ongoing engagement between LAN leads and the Operational Sub-group.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability).
- Deloitte fully supports an independent review into the role of auditors.
- The Government's Brydon Review will consider UK audit standards and how audits should evolve.

Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.

Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders.
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering.
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.

Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts.
- We have governance arrangements in place to assess any areas of potential conflict, including where required to protect the public interest.
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).

Deloitte

- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>

Maintaining audit quality (continued)

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 local government 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 will receive tailored learning to develop their expertise in audit skills, delivered by Pat Kenny and other sector experts. This includes sector specific matters, and audit methodology updates.



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; and
- 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.

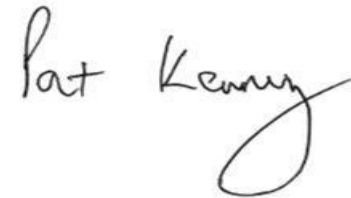
Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed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

12 February 2020

Appendices



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 recognition of grant income 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 (continued)

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), 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 2020 in our final report to the Audit Committee.

Fees

The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £206,338 as analysed below:

	£
Auditor remuneration	135,898
Audit Scotland fixed charges:	
Pooled costs	14,000
Performance Audit and Best Value	47,790
Audit support costs	8,650
Total proposed fee	206,338

In addition, the audit fee for the charitable trust audit is £400.

There are no non-audit services fees proposed for the period.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council'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 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 Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.
<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

Sector developments



Accounting standards

IFRS 16 - Leases

Background

The new standard is being implemented in 2020/21 and will require adjustments to recognise on balance sheet arrangements currently treated as operating leases.

For 2019/20, the Council will need to include disclosures on the expected impact of the standard, but not make any adjustments in the financial statements in respect of IFRS 16. However, many organisations have identified previously unidentified leases (or arrangements that contain a lease, such as service contracts) as part of their transition project, and so there may be some 2019/20 impact.

In the local government context relatively small effects from standards can have a significant impact against performance metrics and targets, and so it is important to clearly understand the impact of the standards.

We have had early discussions with management regarding the planned IFRS 16 work, and to understand the extent of testing required for 2019/20 disclosures.

Next steps

We recommend that the Audit Committee review the impact of IFRS 16 early in the year, including calculating any adjustments that will be required as at 31 March 2020 for transition. We would suggest that the Audit Committee receive reporting in year from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

State of the State

The view from citizens, leaders and the frontline of public services

Background and overview

Now in its eighth year, The State of the State brings together Deloitte and Reform to make an annual assessment of government and public services in the UK. As Brexit negotiations and parliamentary wrangling continues, The State of the State looks beyond the headlines to explore the UK's public sector from the view of citizens, public sector leaders and the frontline of public services.

The State of the State finds that the public want greater spending on services and perceptions of social inequality have grown. It finds that investment in skills could make a significant difference to some of the UK's pervasive economic issues including productivity and regional disparity. And it finds frontline public sector professionals are too often hampered by out-of-date technology and working environments.

But amid these challenges, The State of the State finds much to be positive about. Our research shows that public sector leaders are enthused by the prospect of increased spending, public support is strong for government action on big issues like climate change and the thriving public sector ethos at the frontline remains one of the UK's core strengths.



The State of the State 2019-20

The view from citizens, leaders and the frontline of public services

Next steps

A summary of the key conclusions are provided on the next page. The full report is available at <https://www2.deloitte.com/uk/thestateofthestate>

State of the State (continued)

The view from citizens, leaders and the frontline of public services

Key conclusions

Combining the three perspectives in our research offers real insight into issues at the heart of a new domestic agenda. Our key observations are:

- **The public and the public sector want to know what post-austerity looks like.** Public service leaders are best placed to make their own devolved decisions, but many want direction from national governments on the shape of post-austerity, sector-wide reform. At the frontline, professionals want that reform to include greater use of mobile technology to reduce their administrative burden and boost their productivity.
- **Infrastructure and skills investment should be deployed to tackle economic inequalities.** The public think that economic inequalities in the UK are getting worse and public sector leaders believe transport infrastructure investment could tackle them if deployed with purpose. Our research also suggests that a range of the UK's economic and social challenges converge around skills – and so investment in skills provision could make a substantial difference to the UK's post-Brexit future.
- **The UK has an opportunity to consolidate its environmental leadership.** Public concerns on climate change have spiked in the past year, support for government intervention is strong and the UK has a window of opportunity to consolidate its environmental leadership when Glasgow plays host to the COP26 summit in 2020.
- **Resolving the social care crisis needs political will.** As the Queen's Speech recognised, underfunding in the social care system continues to blight lives and exacerbate demand on the NHS. Leaders across the public services want to see social care rise as a political priority and our survey finds it may be emerging as a priority for the public. Our research suggests that cross-party political leadership may be the best route to new funding arrangements – perhaps considering systems around the world as a starting point for UK options.
- **The UK could set the global gold standard in public administration.** Brexit may be dominating a substantial part of Civil Service capacity, but it has enhanced government capability and stimulated cross-departmental working. Leaving the EU is an era-defining challenge for government departments but beyond Brexit, the UK will be in a strong position to set the global gold standard for public administration, exporting UK expertise, experience of successful transformation and digital know-how.

What does climate change mean for business?

New website – learning, interviews and resources

Background

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

The time to act is now!

Deloitte.

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What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

Supported by



Next steps

Deloitte and the ICAEW have launched a site to support considering what climate change means for finance professionals at www.deloitte.co.uk/climatechange



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Planning report

A tailored, insightful and efficient audit delivered by a team of pension audit specialists

Executive introduction

The key messages in this report:

We have pleasure in presenting our Planning Report to the Audit Committee for the 2020 audit of Shetland Islands Council Pension Fund (the 'Fund'). We would like to draw your attention to the key messages of this paper:

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.

Fund Changes

Following discussions with the Fund's finance team, we have not identified any significant changes to the Fund itself during the year. 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 United Kingdom 2019/20 ("the 2019/20 Code") applies in the current year.

Significant audit risks

As in the prior year, 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 15.

Whilst the accuracy and timeliness of contributions and completeness of investments have not been assessed as significant risks, they have been assessed as audit focus areas as outlined on pages 17 and 18.

Audit Quality

Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund control environment.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management and the Audit Committee.

Executive introduction (continued)

The key messages in this report:

Our response to the audit quality objectives in respect of the Fund are detailed below:

Our audit quality is managed by using dedicated pension scheme audit specialists. This structure allows us to challenge key judgements taken in the preparation of the financial statements.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management.

Audit dimensions

The 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 report our conclusions in our annual report to the Members and Controller of Audit in September 2020. In particular, our work will focus on:

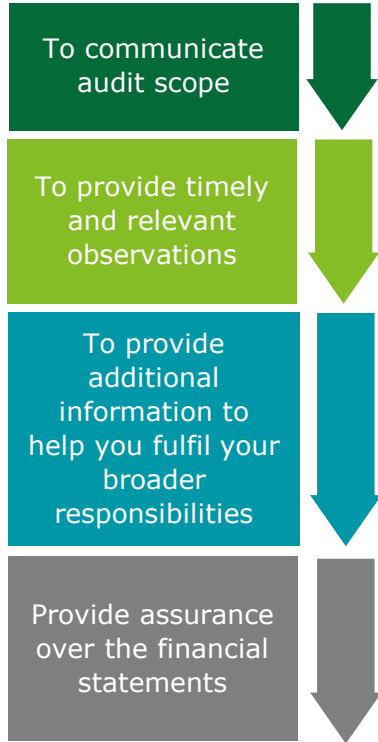
- **Financial sustainability** – we will monitor the Fund’s actions in respect of its medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if the investment strategy is effective.
- **Financial management** – 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

The primary purpose of the Auditor's interaction with 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 those charged with governance in fulfilling their remit.

- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the Fund advisors where activities have been delegated by the Audit Committee.
- Assess the completeness of disclosures, including consistency with disclosures required under the Code of Practice on local authority accounting in the UK.

Oversight of external audit

Integrity of reporting

Internal controls and risk

Oversight of internal audit

Whistle-blowing and fraud

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

- At the start of each annual audit cycle, ensure the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

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

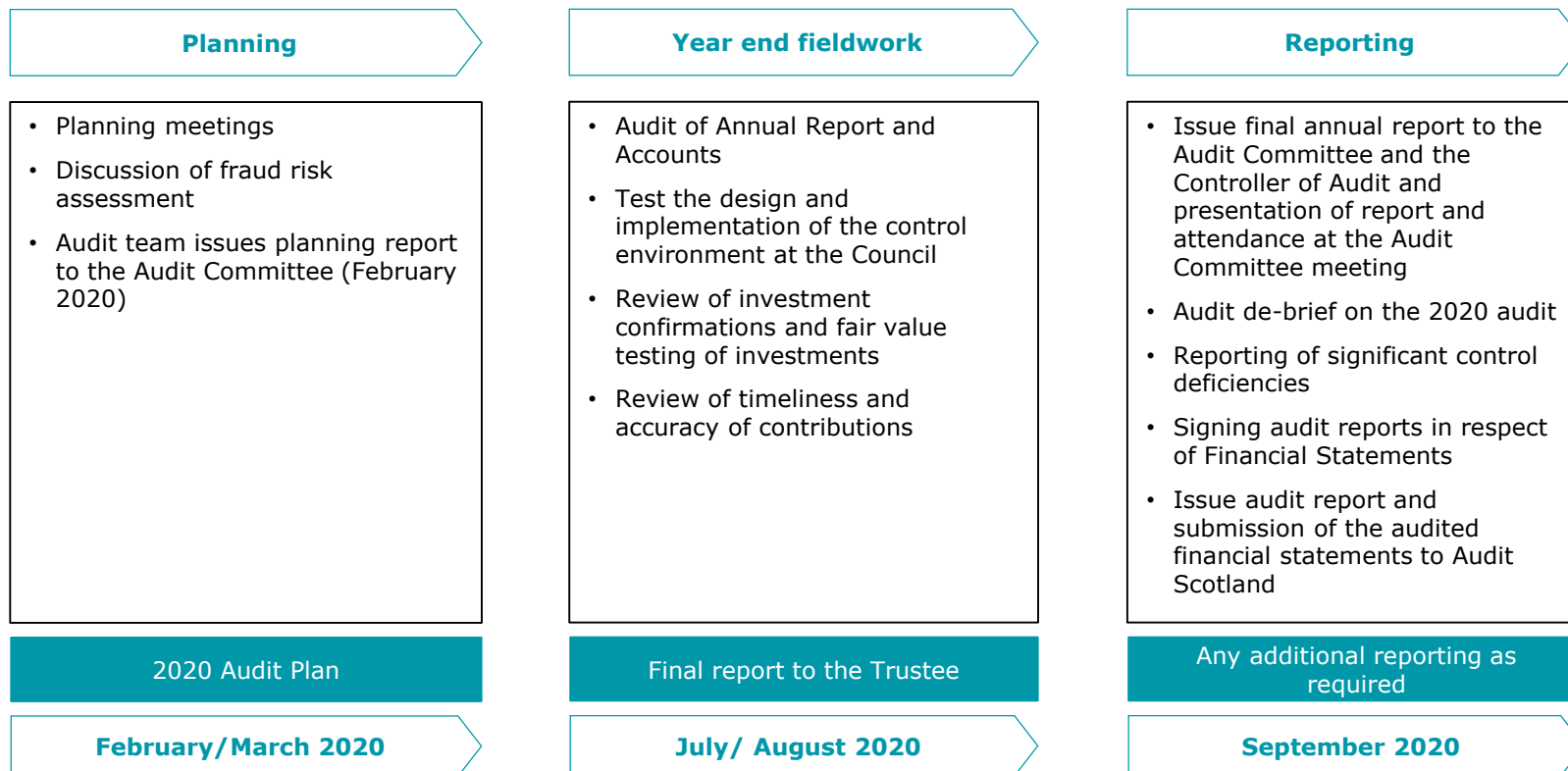
- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

We use this symbol throughout this document to highlight areas of our audit where the Audit Committee needs to focus their attentions.

Timing of the audit

Continuous communication and reporting

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.



Ongoing communication and weekly calls during the year end fieldwork phase

Scoping

Financial statement and audit scope coverage



Our audit work will be performed in accordance with our framework agreement, signed on 31 May 2016. In addition to forming these opinions, we will also report to the Audit Committee on:

- a summary of control weaknesses that we identify; and
- significant audit findings, including commentary on key accounting judgments and disclosures.

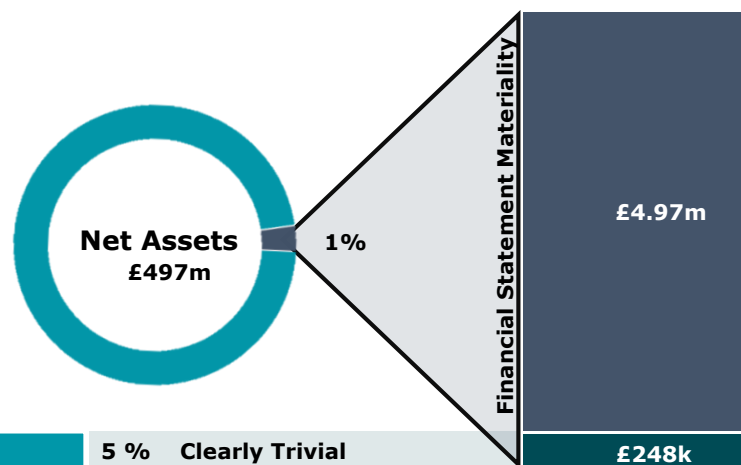
In reaching our opinions, it is necessary to determine whether the financial statements comply with applicable accounting standards and legislation. We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB") and Practice Note 15 'the audit of occupational pension schemes in the United Kingdom'.

We consider a number of factors when deciding on the significant audit risks. The factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the Audit Committee in their previous Management Commentary and Annual Governance Statement;
- our assessment of materiality; and
- the changes that have occurred in the Fund year and the environment it operates in since the last annual report and financial statements.

The financial statement materiality for the Fund is based on 1% of the Net Assets of the Fund as at 31 March 2020.

The below materiality level is an estimate based on the 2019 financial statements, and will be updated on receipt of the draft financial statements. We report to you on any misstatements above our clearly trivial threshold ("CTT") which is 5% of the materiality level below.



Although materiality is the judgement of the audit lead, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.

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;
- 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 2019/20 Audit
Financial sustainability looks 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.	<ul style="list-style-type: none"> • 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. 	<p>We will review 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, which aims to secure the long term solvency of the Fund, so that there are sufficient funds available to meet all benefits as they fall due.</p> <p>Audit Risk: The Fund's investment strategy is inconsistent with the long term solvency of the Fund.</p>
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<ul style="list-style-type: none"> • Systems of internal control. • Budgetary control system. • Financial capacity and skills. • Arrangements for the prevention and detection of fraud. 	<p>We will review the budget and monitoring reporting by the Fund during the year to assess whether financial management and budget setting is effective.</p> <p>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.</p> <p>Audit Risk: The underlying financial performance of the Fund is not transparently reported.</p> <p>Our fraud responsibilities and representations are detailed in Appendix 1 of this report.</p>

Wider Scope Requirements (continued)

Audit Dimensions (continued)

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 2019/20 Audit
<p>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.</p>	<ul style="list-style-type: none"> • Governance arrangements. • Scrutiny, challenge and transparency on decision making and financial and performance reports. • Quality and timeliness of financial and performance reporting. 	<p>We will review the Fund's papers and use our attendance at Audit Committee meetings to assess the effectiveness and scrutiny of governance arrangements.</p> <p>We will also review other aspects of governance around the Fund including Codes of Conduct for officers and members, fraud and corruption arrangements for reporting regulatory breaches to the Pensions Regulator.</p> <p>In addition, we will review the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issues by Scottish Ministers.</p> <p>Audit Risk: The Fund's approach is not keeping pace with good practice.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> • Value for money in the use of resources. • Link between money spent and outputs and the outcomes delivered. • Improvement of outcomes. • Focus and pace of improvement. 	<p>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.</p> <p>We will also review the scrutiny that is in place to challenge the Fund's investment managers on fees and performance.</p> <p>Audit Risk: The Fund does not have sufficient scrutiny over the expenditure of the Fund.</p>

Scoping

Risk dashboard



Risk Area	Risk Type	Fraud Risk	Judgement	Controls approach?	Approach to testing
Management override of controls				D&I	See page 15.
Accuracy and timeliness of contributions				D&I	See page 17.
Completeness of investments				D&I + OE	See page 18.

Significant risk: risk which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. Significant risks are based on professional judgment and the results of the risk assessment procedures we have performed.

Audit focus areas: risks which require additional audit consideration beyond that of normal risks, but where the potential for material misstatement or the likelihood is lower than that of a significant risk.

D&I: Design and implementation of controls

OE: Operating effectiveness

- | | | | |
|--|---|--|------------------|
| | Low levels of management judgement/involvement | | Significant risk |
| | Medium levels of management judgement/involvement | | Audit focus area |
| | High degree of management judgement/involvement | | |

Scoping

Summary of Account Balances

Scoping Key Account Balances

We have considered each of the Fund's significant account balances (based on 31 March 2019 signed financial statements).

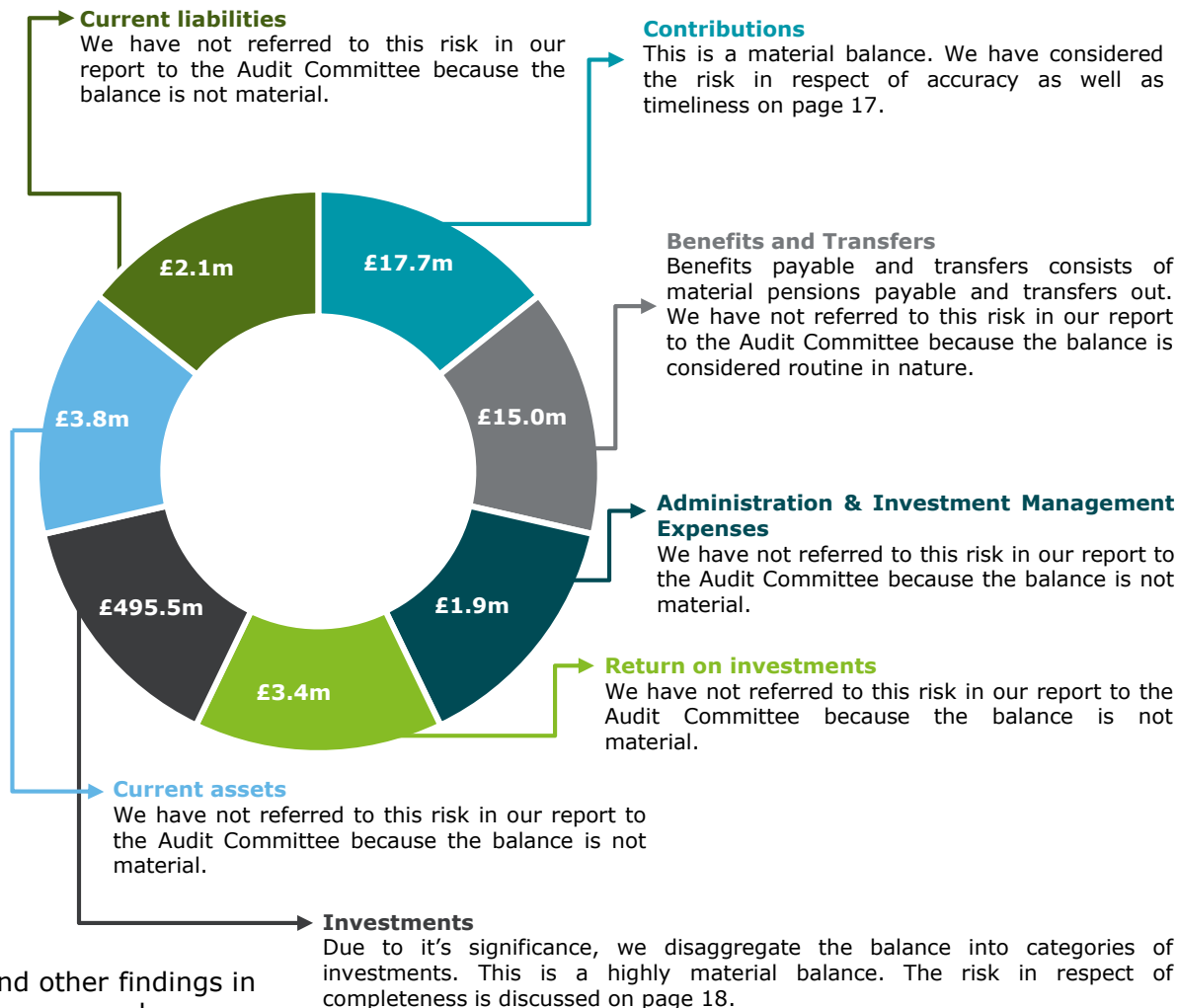
For each balance, we explain the basis on which we have determined whether or not it will be a key audit matter and provide commentary.

We will report factually on the key audit matters that have the biggest impact on the audit.

We will explain why the matter is relevant within the specific circumstances of the Fund and clearly document the specific procedures we will perform to address the key audit matter.

These areas are considered in more detail on pages 17 to 18. The estimated account balances below are based on the prior year signed accounts.

We will report control observations and other findings in our final report to the Audit Committee on work performed on other account balances.





**Significant
audit risk**

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override 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.

Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte response to significant risk identified

In order to address the significant risk our audit procedures will consist of the following:

- using data analytics in our journals testing to interrogate 100% of journals posted across the Fund;
- making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- performing a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- reviewing the accounting estimates for bias, such as year-end creditor and debtor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- testing the design and implementation of controls around the investment and disinvestment of cash during the year; and
- Making enquiries of management in relation to the identification of related parties.



Audit focus areas

Timeliness and accuracy of contributions

Risk identified

The correct deduction and timely payment of contributions depends on system-based processing of membership data and salary details, together with a robust internal controls 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 the active members' payroll, which can be costly to rectify and cause reputational damage.

In addition, while no opinion is issued on timely payment of contributions, it remains an area of focus, as LGPS Regulations stipulate due dates for payment. Late payments could cause reputational damage.

There is a risk that contributions are not paid to the Fund accurately or in a timely manner.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Deloitte response to risk identified

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 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;
- Test the reconciliation of the total number of active members between the membership records and the employer payroll records; and
- For a sample of monthly contributions paid, check that they have been paid within the due dates per the LGPS Regulations.

Completeness of investments

Risk identified

The Fund holds a large and highly material portfolio of investments, which is diversified with several investment managers. As a result of this we consider the completeness of these investments to be an area of audit focus.

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

Response of those charged with governance

The Fund appoints various investment managers and Northern Trust as custodian for these investments. These parties have strong control environments in place.

Deloitte response to risk identified

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 investments by obtaining the investment manager internal controls reports and evaluating the implications for our audit of any exceptions noted;
- Independently request confirmations from all investment managers and the global custodian for balances held per the financial statements;
- Agree year end valuations, sales proceeds and purchases in the financial statements to the reports received directly from the investment managers;
- Perform a full unit reconciliation of investments held during the year;
- Perform valuation testing by using a range of techniques depending on the type of investment:
 - 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 the year end as an estimate of the price.
 - Where the investment is a unit linked insurance policy, we will confirm that the investment is held under the form of a unit linked insurance policy, that the insurance provider is authorised to provide insurance services and obtain confirmation that the provider would be willing to transact at the unit price stated on the confirmation received.
 - Where none of these options are available we will obtain audited financial statements and assess the year end price against the audited accounts, and benchmark movements where the date of the audited financial statements is not coterminous with the Fund's financial year.



**Maintaining
audit
quality**

Maintaining audit quality

Responding to challenges in the current audit market



This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)
- Deloitte fully supports an independent review into the role of auditors
- The Government's Brydon Review will consider UK audit standards and how audits should evolve

Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model

Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies

Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)

Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
- Our response to the latest AQR report is on page 21

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 Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."



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; and
- Key regulatory updates, relevant to you

Other relevant communications

- Our technical updates provide the Audit Committee with some insight in to relevant topical events in the pensions industry.
- 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.

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 Fund 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.

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



Pat Kenny

for and on behalf of Deloitte LLP

Glasgow | 14 February 2020



Appendices

Key audit matters

Appendix 1: 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 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 management override of controls as a key audit risk for the 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 / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and 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.



Appendix 1: Fraud responsibilities and representations (continued)

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 Fund.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the Fund.
- 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 Fund.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.



The Trustee

- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the Audit Committee on the most significant fraud risk factors affecting the Fund.



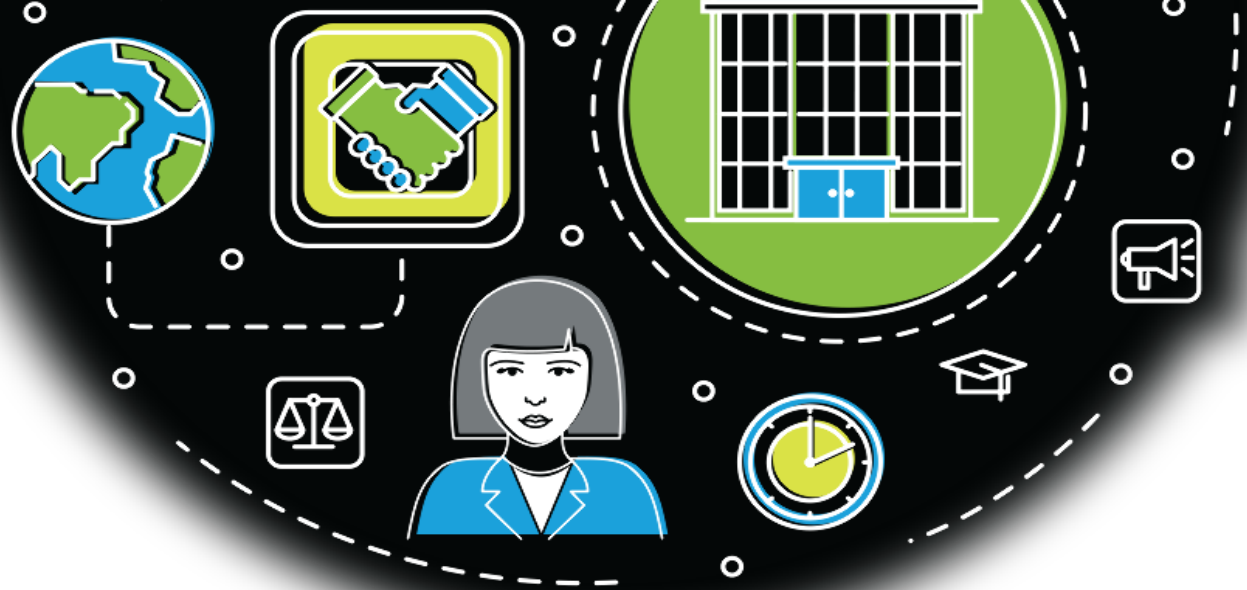
Appendix 2: Independence and fees

A Fair and Transparent Fee



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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee.								
Fees	<p>The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £28,447 (2018/19: £29,100) as analysed below:</p> <table> <tr> <td>Auditor remuneration:</td><td>£24,387</td></tr> <tr> <td>Pooled costs:</td><td>£2,510</td></tr> <tr> <td>Contributions to Audit Scotland costs:</td><td>£1,550</td></tr> <tr> <td>Total:</td><td>£28,447</td></tr> </table> <p>There are no non-audit services fees proposed for the period.</p>	Auditor remuneration:	£24,387	Pooled costs:	£2,510	Contributions to Audit Scotland costs:	£1,550	Total:	£28,447
Auditor remuneration:	£24,387								
Pooled costs:	£2,510								
Contributions to Audit Scotland costs:	£1,550								
Total:	£28,447								
Non audit services	<p>In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy.</p> <p>We continue to review our independence and ensure that appropriate safeguards are in place 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.</p>								
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.								



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Meeting:	Audit Committee	9 March 2020
Report Title:	Internal Audit - Audit Plan 2020/21	
Reference Number:	CRP/06/20-F	
Author / Job Title:	Duncan Black, Chief Internal Auditor	

1.0 Decisions / Action required:

That the Audit Committee:

- 1.1 APPROVES the Audit Plan 2020/21 attached to this report as Appendix 1.

2.0 High Level Summary:

- 2.1 The purpose of this report is to provide details of the Internal Audit plan for 2020/21 and the outputs, which the Committee and senior management of the Council can expect from Internal Audit services in 2020/21.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to submit the annual audit plan to an appropriate Audit Committee for approval. This report presents the proposed internal annual audit plan for the Council for 2020/21.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Audit Committee is an integral part of the formal governance arrangements of the Council making a significant contribution to the 20 by '20 commitments in Our Plan 2016-2020, which aim to "set the tone for standards the organisation expects everyone to achieve over the next four years".

4.0 Key Issues:

Background

- 4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the control environment within the Council. The annual audit plan is designed to assist the Chief Internal Auditor in formulating that opinion.
- 4.2 In developing the annual audit plan, we:

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- Consolidated our understanding of the Council through discussions with senior management (Infrastructure Services has not yet fed into the planning process therefore the plan will be kept under review), the Internal Audit team staff and a review of key strategic documentation;
- Consulted risk registers to understand the nature of inherent risks facing the organisation; and
- Reviewed the outputs from previous reviews at the Council.

- 4.3 Changes in organisational structures, system developments, changes in working practices and legislative requirements create a constantly changing control environment. Taking these factors into account, the highest risk areas are brought forward in the annual audit plan. Risk is assessed by considering various factors. These include the potential financial impact if controls fail; any changes or new processes/systems that have been implemented and the assessment of senior officers and auditors regarding the effectiveness of controls in key areas. These risk scores are weighted and the highest composite scoring areas are prioritised in the audit plan.
- 4.4 Internal Audit work will be undertaken in accordance with the PSIAS, which have been adopted by the Relevant Internal Audit Standard Setters (RIASS). The RIASS includes, among others, HM Treasury, the Scottish Government and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.5 The Internal Audit team is led by Duncan Black, Head of Audit and Inspection and Will Hart, Chief Auditor at Glasgow City Council. The day to day management of the audit team is undertaken by Jillian Campbell and Francis Scott, Senior Audit Managers at Glasgow City Council. Duncan, Will, Jillian and Francis have significant experience providing the internal audit service to Glasgow City Council, its Arm's Length External Organisations, the Strathclyde Pension Fund, Integration Joint Board and City Deal. The Internal Audit team at Glasgow holds the British Standard ISO9001:2008 Quality Management Standard. This Standard has been held for over 18 years and an annual assessment of compliance with the Standard is undertaken by independent British Standard reviewers. The last review undertaken by British Standard reviewers was in February 2020 and confirmed that the Internal Audit team continues to have processes and procedures in place that demonstrate compliance with the requirements of the Standard.
- 4.6 The PSIAS include key principles that public sector Internal Audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. The PSIAS introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside the organisation. During 2015/16 an external assessment was undertaken at Glasgow City Council by the Chief Auditor and Audit Manager from Manchester City Council. The assessment confirmed that Internal Audit conforms to the requirements of the PSIAS. An action plan has been developed to further enhance the Internal Audit service and all actions have now been fully addressed. The next review is currently being scheduled for 2020/21 via the Core Cities Network. The external assessment of Internal Audit within Shetland Islands Council will be undertaken during 2020/21 by the Western Isles Council Chief Internal Auditor.

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Approach

- 4.7 The Internal Audit Charter formally defines the purpose, authority and responsibility of Internal Audit. The Audit Charter is included at Appendix 3.
- 4.8 The Audit Plan 2020/21 shows the outputs which members of the Audit Committee and management can expect from Internal Audit during 2020/21. For each audit assignment, we will agree a terms of reference with management prior to commencing fieldwork. A summary of our findings will be agreed in draft with management, prior to reporting to the Audit Committee.
- 4.9 Our reports will include a summary of main audit findings, highlighting any control weaknesses and recommendations for improvement.
- 4.10 The PSIAS require that the audit plan should be kept under review to reflect any changing priorities and emerging risks. We will therefore ensure the plan remains relevant and reflects any changes to the inherent risks at the Council. The Audit Committee will be asked to approve any material adjustments to the audit plan.
- 4.11 Internal Audit will work with the appointed external auditors, Deloitte, to ensure that audit work dovetails efficiently, minimising unnecessary overlap or duplication.

The Role of the Chief Internal Auditor

- 4.12 The CIPFA guidance in relation to “The Role of the Head of Internal Audit in Public Service Organisations” is intended to provide best practice for Heads of Internal Audit.
- 4.13 The role of the Chief Internal Auditor to Shetland Islands Council meets the principles set out in the CIPFA guidance.

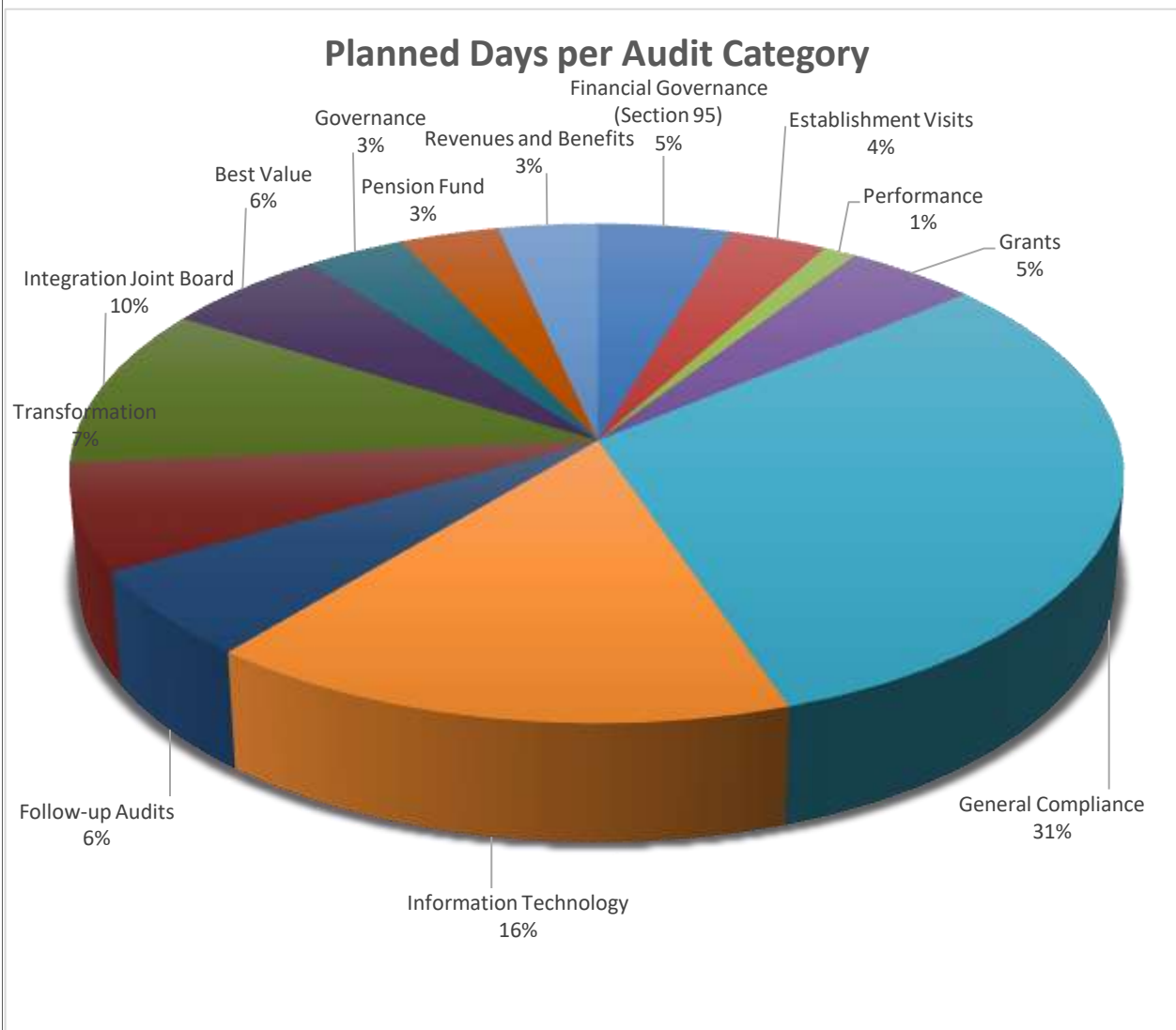
Resourcing

- 4.14 The majority of audit fieldwork will be undertaken by the in-house Internal Audit team at Shetland Islands Council. There are currently 1.8 full-time equivalent (FTE) members of staff working in the in-house Internal Audit team.
- 4.15 The Chief Internal Auditor is liaising with the Director of Corporate Services to ensure the audit team is adequately resourced to carry out its function. Additional resources can be called on from Glasgow City Council's wider audit team as required. There is also a commitment to the ongoing development/training for the in house Internal Audit team.

Internal Audit Outputs in 2020/21

- 4.16 The main output from Internal Audit in 2020/21 will be the Chief Internal Auditor's Annual Report.
- 4.17 The Annual Report will be based principally on the work undertaken by Internal Audit during the year to complete the audit plan.

- 4.18 The key areas we will cover in 2020/21, and on which we will provide assurance, are shown in Appendix 1, together with the main control risks associated with these areas.
An approximate breakdown of planned days per audit category is provided in the chart below:



- 4.19 The range of distinct auditable areas (the Audit Universe), reviewed over the previous three-year period, is included at Appendix 2.

Resources

- 4.20 In 2020/21, 390 days are available to carry out assurance audit work.

5.0 Exempt and/or confidential information:

- 5.1 None.

6.0 Implications:

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6.1 Service Users, Patients and Communities:	The Council must ensure Best Value in the delivery of services. Internal Audit activities provide reassurance to the Council in this regard.
6.2 Human Resources and Organisational Development:	None directly arising from this report.
6.3 Equality, Diversity and Human Rights:	None directly arising 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. The Internal Audit Plan 2020/21 sets out the planned internal audit activities for 2020/21, which will allow the Council to meet these requirements.
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:	None directly arising from this report.
6.8 Environmental:	None directly arising from this report.
6.9 Risk Management:	The Internal Audit Plan 2020/21 takes a risk based approach to the planned audit activities in 2020/21
6.10 Policy and Delegated Authority:	The Audit Committee remit includes agreeing the internal audit plan.
6.11	None

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Previously considered by:		
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Contact Details:

Duncan Black

Chief Internal Auditor

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9 March 2020

Appendices:

Appendix 1 – Shetland Islands Council Internal Audit Plan 2020/21.

Appendix 2 – Shetland Islands Council Audit Universe

Appendix 3 – Audit Charter

END

Shetland Islands Council Internal Audit – Annual Audit Plan 2020/21

Main Audit Outputs - Key System Areas and Control Risks

Financial Governance (Section 95)

1. Financial Management – work in this area will include assessing the arrangements for budget setting, monitoring and reporting.

Risk – that system controls and processes are not effective, resulting in errors.

2. LEADER – work in this area will include assessing compliance with the requirements of the LEADER.

Risk – the controls in place are not effective, which results in the Council failing to comply with the LEADER requirements.

Establishments / Income Management

3. Income Management, Collection & Security – this includes a review of controls relating to how income is collected in various service departments. It will examine the security arrangements which are designed to minimise the risk of misappropriation.

Risk – income is not recorded, lost or misappropriated.

Grants activity

4. Grants – the audit plan will include an examination of the controls in place for the administration of various grants that are awarded to the Council.

Risk – grants are not administered appropriately, putting the grant award at risk of being clawed back.

General compliance

5. The audit work includes a review of different areas of operation within the Council including the planning application process, homelessness, child protection arrangements, attendance management and pupil equity funding.

Risk – that the Council does not adequately control its operations leading to its key objectives not being achieved or the inappropriate use of resources.

Performance management assurance

6. Performance Management – audits in this area will review aspects of the Council's performance monitoring regime, including the collation of Statutory Performance Indicators.

Risk – that the Council does not achieve its key objectives due to inadequate or incomplete performance monitoring arrangements.

Information technology and information security

7. Information Technology and Security – audits in this area will test the procedures, processes and arrangements designed to ensure that systems are appropriately controlled and information is protected. Auditors will consider and assess information security issues throughout the course of all audits undertaken as part of the Audit Plan. Specific work will be undertaken to provide assurance over the arrangements for core applications, IT general controls and system transformation.

Risk – There is a risk that a failure in the Council's IT provision will impact on service delivery.

Transformation

8. Transformation – audits in this area will review the arrangements for implementing the service redesign programme to provide assurance over the progress and realisation of benefits where appropriate.

Risk – that the programme is not progressing as expected with expected benefits/savings not realised as required.

Assurance Area	Audit Area	2017/18	2018/19	2019/20	2020/21
General Compliance	Ferry Operations	✓			✓
	Train Shetland – Short Courses	✓			
	Data Protection, Retention and Destruction		✓		
	Disaster Recovery and Business Continuity		✓		
	Risk Assessment				
	Health and Safety				
	Roads		✓		
	Flexi-time/Annual Leave/TOIL		✓		
	Hostel		✓		
	Personal development plans		✓		
	Travel		✓		
	Economic Development			✓	
	Housing repairs			✓	
	Starters and Leavers			✓	
	Additional Payments			✓	
	Members Expenses			✓	
	Child Protection				✓
	Board/Committee effectiveness				✓
	Pupil Equity Fund				✓
	Planning Application Process				✓
	Homelessness				✓
	Fleet Management				✓
	Attendance Management				✓
Risk Management	Risk Management			✓	
Transformation	Transformation/Best Value			✓	✓

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SIC Internal Audit Plan 2020/21 – Audit Universe

Assurance Area	Audit Area	2017/18	2018/19	2019/20	2020/21
Section 95	Payroll	✓		✓	
	Pensions	✓			
	Scottish Welfare Fund	✓			
	Revenues recovery		✓		
	Housing Rents		✓		
	Local taxation		✓		
	LEADER	✓	✓	✓	✓
	Credits/hardship – Shetland College	✓	✓	✓	✓
	Pension Payroll				✓
	Financial Management				✓
Section 95	IR35		✓		
Establishment Visits	Establishment Visits	✓	✓		✓
Grant	Grant schemes		✓		
	European Funding Compliance			✓	
Procurement	Contracts	✓			
	Procurement compliance			✓	
Information Technology	Lair Reservation System	✓			
	Telematics		✓		
	Iphones/lpads		✓		
	Back up systems	✓			
	Service Level Agreements with third parties		✓		
	Stock and Inventory Management	✓			
	IT related business continuity and disaster recovery	✓			
	Network Access	✓			
	Change Management		✓		

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SIC Internal Audit Plan 2020/21 – Audit Universe

Assurance Area	Audit Area	2017/18	2018/19	2019/20	2020/21
	BACS, user access levels		✓		
	Spear Phishing/Cyber Crime			✓	
	Core system application reviews			✓	✓
	Document retention and disposal			✓	
	IT Assurance Map			✓	
	IT General Controls				✓
	System Transformation				✓
Performance	Performance Indicators	✓	✓	✓	✓
Capital Governance	Capital programme Governance			✓	
Revenues and Benefits	Digital Workflow				✓

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SHETLAND ISLANDS COUNCIL

INTERNAL AUDIT CHARTER

Presented to Audit Committee: March 2020

Latest Review : December 2019

Next Review Date : November 2021

1. Introduction

- 1.1 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.
- 1.2 The Internal Audit Charter formally defines the purpose, authority and responsibility of Internal Audit, in accordance with the Public Sector Internal Audit Standards (PSIAS) adopted by the Relevant Internal Audit Standard setters.
- 1.3 Internal Audit has an outsourced management team which is led by the Chief Auditor, Glasgow City Council. The Chief Auditor reports directly into the Chief Executive and Executive Management Team.
- 1.4 The Internal Audit Charter will be reviewed and reported to both Senior Management as appropriate.

2. Definitions

- 2.1 Chief Audit Executive – the Chief Internal Auditor
- 2.2 Board – the appropriate Council Committee with the responsibility for Audit matters.
- 2.3 Senior Management – Council senior officers.

3. Purpose

- 3.1 Internal Audit is defined within the PSIAS as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

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- 3.2 The Chief Internal Auditor provides the Chief Executive, senior Council officers and Elected Members with an annual opinion on the adequacy of the Council's system of internal control. It is management's responsibility to implement and maintain effective internal control systems within its area of responsibility. It is Internal Audit's role to assist management by reviewing and evaluating the effectiveness of those control systems.

4. Role of the Chief Auditor

- 4.1 The CIPFA guidance in relation to "The Role of the Head of Internal Audit in Public Service Organisations" is intended to provide best practice for Chief Auditor's to achieve, and for Audit Committees to measure Internal Audit against. The statement sets out an overarching principles-based framework which applies across the UK public sector. It states that the Chief Auditor plays a critical role in delivering an organisation's strategic objectives by:

- Championing best practice in governance and management, objectively assessing the adequacy of the management of existing risks, and commenting on responses to emerging risks and proposed developments; and
- Giving an objective and evidence-based opinion on all aspects of governance, risk management and internal control.

5. Authority

- 5.1 Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. These include, but are not limited to, the Financial Regulations, the Whistleblowing and Response Policy and the Code of Conduct.

- 5.2 Internal Audit:

- Has unrestricted access to all Council records, cash, property, assets and people, where necessary on demand and without prior notice;
- Can obtain explanations as is required to satisfy the probity of any matter under consideration;
- Can require the production of any records and other such property as is deemed necessary, and
- Requires all senior officers to report all actual or perceived losses (cash, stock, equipment or data), all suspected or actual instances of theft, embezzlement, fraud, corruption or any other impropriety.

6. Scope

- 6.1 The scope of Internal Audit's work includes:

- All Council systems, processes, policies, plans and procedures;

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- Use and safeguarding of resources and assets, including data;
- Governance and risk management processes;
- Commissioning and procurement;
- Projects and programmes;
- Fraud, including investigation of allegations of fraud and corruption;

7. Resourcing and Audit Planning

- 7.1 In line with PSIAS requirements Internal Audit develops a risk based audit plan which enables the Chief Auditor to provide an annual opinion on the adequacy of the Council's system of internal control. The plan is developed through an assessment of risk and assurance needs and is sufficiently flexible to reflect changing organisational risks and priorities. It is submitted to the appropriate Council Committee with responsibility for audit.
- 7.2 The annual audit plan sets out the planned audit resources for the year with the objective of giving an evidence-based opinion. It is the Chief Auditor's responsibility to ensure that Internal Audit is adequately resourced in order to carry out its function.

8. Independence and Objectivity

- 8.1 The PSIAS define independence as "freedom from conditions that threaten the ability of the Internal Audit activity to carry out its responsibilities in an unbiased manner". The Chief Auditor is external to the Council which assists Internal Audit to carry out the role and constructively challenge senior managers of the Council. Senior Officers and those charged with governance have input into the annual audit plan however they do not direct the plan.
- 8.2 Auditors challenge, on the basis of objective evidence, decisions, policies or practices they consider inappropriate or in need of improvement, no matter who is involved in the decision making. It is essential for Council officers and Elected Members to recognise Internal Audit's role and responsibilities and accept Internal Audit comment and advice in this spirit, giving a reasoned response if they take a different view.
- 8.3 Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activities or processes audited. They make a balanced assessment of relevant circumstances and are not unduly influenced in forming judgements by their own interests or others.

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- 8.4 Objectivity and independence in the provision of advice and guidance are maintained, and conflicts of interest avoided. Internal Audit has no operational responsibility for, or authority over, activities audited and all officers undertaking audit work are required to complete declarations of interest annually, including “nil” returns. Where Internal Audit officers are deemed to have operational involvement, they must remove themselves from any related Internal Audit activity.

9. Other Work

- 9.1 Internal Audit will consider all requests for additional work, outwith the audit plan, on agreement with relevant senior officers. This includes attendance at working groups and offering advice and guidance.

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Shetland Islands Council

Agenda Item

3

Meeting(s):	Audit Committee	9 March 2020
Report Title:	Internal Audit Summary Report	
	CRP-07-20-F	
Author / Job Title:	Duncan Black Chief Internal Auditor	

1.0 Decisions / Action required:

- 1.1 That the Audit Committee NOTES the content of the report.

2.0 High Level Summary:

- 2.1 The attached Internal Audit Update Summary provides Members of the Audit Committee with an overview of the work undertaken by Internal Audit to 29 February 2020 as part of the agreed 2019/20 Internal Audit Plan.

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 29 February 2020, three reviews have been completed and summary information for each review is provided below. Links to electronic versions of the full reports are also provided at 4.6.

4.3 Members Expenses

	High	Medium	Low
Number of recommendations	-	2	1

This audit was undertaken to gain assurance that Members expenses have been paid in accordance with the prescribed regulatory requirements.

The scope of the audit included reviewing that the following had been adhered to:

- Claim completed on the required standard form;
- All aspects of the claim had been completed as required;
- The Member had signed and dated the form;
- Receipts had been submitted as required for any subsistence or expenses claimed, and
- The required checks and authorisation had taken place.

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

- Reminding Members of the requirements of the Travel & Subsistence Policy, that claims should be submitted promptly after expenses have been incurred and that accommodation should be booked through the travel co-ordinators;
- Ensuring valid driving licences and required insurance is in place.

4.4 Starters and Leavers

	High	Medium	Low
Number of recommendations	-	4	1

This audit was undertaken to gain assurance that adequate processes have been put in place to ensure the efficient and effective handling of new starts and employees leaving employment. The scope of the audit included reviewing:

- Pre-employment checks arrangements;
- The induction process for new employees;
- Administration of new starters, and
- Administration of leavers.

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

- compliance with the leavers process;
- Ensuring new start information is submitted promptly,
- Approval for recruitment exercises, and
- Improvements to the corporate induction process.

4.5 ICT Change Control

	High	Medium	Low
Number of recommendations	-	4	-

This audit was undertaken to identify and review key controls in relation to ICT change control. The scope of the audit included reviewing the arrangements for:

- Documentation of the change management process;
- Segregation of duties;
- Approval of changes;
- Testing and recording of changes;
- Emergency changes, and
- Post-implementation reviews

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

- Improving the recording of testing undertaken;
- Improving the post implementation review process;
- Documenting the roll-back plan, and
- Documenting approval dates.

4.6 The full reports for the above reviews are available at the following links:

- Members Expenses
http://www.shetland.gov.uk/about_internal_audits/documents/AuditReportMembersExpenses-Finalreport.pdf
- Starters and Leavers
http://www.shetland.gov.uk/about_internal_audits/documents/FinalReport-StartersandLeavers.pdf
- ICT Change Control
http://www.shetland.gov.uk/about_internal_audits/documents/FinalReport-ChangeControl.pdf

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.
6.2 Human Resources and Organisational Development:	None directly from this report.

6.3 Equality, Diversity and Human Rights:	None directly from this report.
6.4 Legal:	Compliance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.
6.5 Finance:	None directly from this report.
6.6 Assets and Property:	None directly from this report.
6.7 ICT and new technologies:	None directly from this report.
6.8 Environmental:	None directly from this report.
6.9 Risk Management:	Implementation of the recommendations in Internal Audit reports will help address risks identified through our work.
6.10 Policy and Delegated Authority:	The Audit Committee remit includes consideration of audit matters and to oversee and review actions taken on audit activity.
6.11 Previously considered by:	None.

Contact Details:
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Appendices – None

END