Audit Committee
Remote Meeting
Wednesday 23 September 2020 at 10.00am

Present:

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

Also:
S Coutts

Apologies:
None

In attendance (Officers):
C Ferguson, Director of Corporate Services
J Manson, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
A Cogle, Team Leader – Administration
K Collins, Financial Accountant
K Johnston, Solicitor
L Geddes, Committee Officer

Also:
C Healy, Deloitte LLP
F Scott, Audit Glasgow

Chairperson
Mr Duncan, Chair of the Committee, presided.

Circular
The circular calling the meeting was held as read.

Declarations of Interest
None.

09/20 **Annual Audit Report on the 2019/20 Audit - Shetland Islands Council and Zetland Educational Trust**

The Committee considered a report by the Executive Manager - Finance (F-041-F) presenting the Annual Audit Report on the 2019/20 Audit for Shetland Islands Council and the Zetland Educational Trust (ZET).

The Executive Manager - Finance summarised the main terms of the report, advising that this year it had been necessary to conduct the audit remotely. There were a number of separate reports related to the annual accounts and the report on the wider audit dimensions would normally have been presented in June, but it had not been possible this year owing to travel restrictions. Since the unaudited accounts had been approved, a small number of adjustments had been made during the audit process. As a result the accounting deficit had decreased by £1.4 million, and net assets had increased by £1.4 million. This was in respect of long-term pension liability in light of recent developments relating to the McCloud judgement. However there were no material errors, and it was expected that an unmodified opinion would be issued. There had been some presentational changes, and the annual governance statement had been revised to reflect the external auditor's findings now that the audit process had concluded. The annual governance statement was an integral part of the final accounts, and the statement approved in July had been the draft statement. The Chief Executive had given Members a briefing outlining measures taken to address the concerns raised at that meeting, and approval was now sought for the final version.

Mr Healy then introduced the Annual Audit Report. He advised that the material uncertainty identified in relation to the valuation of the Council's estate did not suggest that the valuations were incorrect, but instead related to the impact of COVID-19, which could not have been foreseen by management. The "Quality Indicators" was a new slide this year that had been included as a result of numerous audit scandals affecting the UK. It set out indicators in relation to how the audited body can impact on the quality of the audit - all of which were 'green'. He highlighted the excellent quality of the draft financial statement, which provided a good summary of the position of the Council. There were two significant risks - recognition of grant income related to the complexity of complying with conditions and potential clawback, and management override of controls was a presumed risk included each year – but no issues had been identified.

He went on to say there were two updates in relation to the defined benefits pension scheme reflecting changes to liability following the McCloud judgement, as referred to earlier. These had a net nil impact on reserves, and were not material. With regard to internal control and risk management, IT specialists had performed detailed work on six of the Council's IT systems. Some risks had been identified, and these had been accepted by management. The Committee had requested that the total impact of trivial differences be reported on, and these had a potential impact on the general fund of £0.289 million. There were two recommendations for improvement in the action plan. In terms of the quality of the audit, Deloitte LLP had achieved 100% where either limited or no improvements were required, ahead of the FRC target of 90%.

Responding to questions, he advised that reporting on trivial differences would be a standard feature of future audits for this Council, and reported on an annual basis. Because trivial differences do not require in-depth investigation and get closed off during the audit closedown process, the differences can and do change until the point the audit is signed. The figure at the date of the presentation was £1.191 million, down from the amount included in the report. With regard to conducting the audit remotely, he advised that there had been some difficulties and delays in getting evidence, but he felt that there was actually increased scrutiny in conducting the audit in this way because there was a lot more correspondence in writing. Because of the COVID-19 situation, there was also a lot more information available regarding the impact on the Council.

He also confirmed that the risk with regard to fraud and corruption in the procurement function was a specific risk highlighted by Audit Scotland, applicable to Councils across Scotland. There were a number of areas for improvement highlighted in the report, which the Council accepted. It was an area that had been delayed, but internal audit would be looking at it. There was nothing to suggest impropriety, but issues had been identified regarding how the Council viewed the risk and the policy was slightly out of date.

It was questioned if the Council would have sufficient resources in place over the coming year in view of the worsening COVID-19 situation, and Mr Healy advised that what level of resource would be provided to local authorities by the Scottish Government to deal with COVID-19, and what the role in auditing those would be, was currently unknown. The Council was in a relatively healthy position compared to other local authorities due to its level of reserves, although there were financial issues going forward.

The Director of Corporate Services added that the record so far with having people on the ground to continue delivering services across the partnership was very good. Shetland continued to be well placed for the future, and the Council would be looking at lessons learned from the first outbreak. The potential impact had been incorporated into future plans at every level, and in the recovery and renewal framework. However it was an area of concern that an additional £2.2 million had been spent so far in relation to this.

Mr Healy then went on to speak about the wider audit dimensions that normally would have been presented to the Committee earlier in the year. There were four separate dimensions linked to the delivery of best value. The Council had drawn on £21.72 million of reserves - £6 million more than the year before. Deloitte LLP had been assured that these issues would be addressed, and would be monitoring this. While the Council had achieved short-term financial balance, it continued to draw on reserves, so the medium-term financial plan required to be revisited and the Council needed to increase its focus on transformation. The Council had strong leadership in place, and it was clear that strong arrangements existed between organisations. The requirement to review the Integration Scheme with the NHS and IJB had not yet been completed due to COVID-19. There had also been insufficient reporting – as a result of the new Performance Management Framework and COVID-19 – to enable a conclusion regarding how well the Council was performing in relation to its targets. The Council had improved in a number of areas, and it performed better than other local authorities in 64 areas. However it spent more than other authorities in 75 areas, so the previous concerns in relation to spending remained. The Council had a number of arrangements in place to secure best value, but changes were required to the pace of change. The audit contract had been extended by one year, with the Council's planned Best Value Assurance Report (which will be the final BVAR the Council receives), and the Council should make the best use of this time to ensure a lasting legacy in relation to best value.

It was questioned what proportion of reserves came from managed reserves, rather than the harbour account and other incomes, and the Executive Manager – Finance advised that it was difficult to give an accurate comparison. There were various different funds that were part of the reserves that the Council held, and some of these were invested with fund managers. He would endeavour to come back with an explanation of these outwith the meeting.

It was also questioned if it was correct to say that withdrawals were only classed as unsustainable because the Council had agreed to cut its budget - given that the further £3.5 million withdrawal was seen as unsustainable, but reserves stood at

£380 million. Therefore if there was no medium term financial plan, this £3.5million withdrawal would not be seen as unsustainable.

Mr Healy advised that a medium-term financial plan was helpful in quantifying what the Council believed to be sustainable. In the absence of a medium term financial plan, Deloitte LLP would have created something that would take into consideration whether financial balance was being achieved, and whether there were sufficient resources over the medium and long term to deliver services. While the Council did have healthy reserves, its current course of action was unsustainable, and the medium term financial plan set out the situation the Council faced. The absence of a medium term financial plan would not have impacted the conclusion reached by Deloitte LLP. While it was reasonable to use reserves in the short term, it was not sustainable in the longer term. It would delete investments and reserves, and the returns to replenish these reserves, therefore impacting on the sustainability of services.

In response to a question regarding when the review of the medium term financial plan would take place, the Executive Manager – Finance advised that the audit process had taken up time over the summer. As soon as the accounts were signed, attention would turn to the medium term financial plan, and it was aimed to present a report in November. There were a lot of recent forecasts and developments that would have to be taken into account, and the medium term financial plan should align with the refreshed change programme and corporate plan.

He went on to confirm that the Council would not know what its grant from the Scottish Government was until the UK Government had carried out its budget setting exercise, and no further information was available on that yet. It was possible that the budget setting exercise may be late, like it had been last year. Hopefully a settlement would be received before Christmas, allowing the Council to build a budget in good time.

In response to a further query regarding the two additional significant governance issues that had been noted in respect of non-compliance, he advised that the Council had agreed to progress these before the end of the year, and work was currently taking place with the IJB and NHS.

Mr Smith moved that the recommendations in the report be approved, but after the Chair advised that discussion still had to take place in respect of ZET, he amended his motion so that the Committee approve recommendations 1.1(a) to (g) only.

The Executive Manager – Finance advised that the Annual Accounts in respect of ZET were unchanged since they had been presented in July.

(Mr C Smith left the meeting during the following discussion)

It was questioned how Members could seek amendments to how ZET funds were distributed, given it had been established in 1961 and its remit required updating.

The Executive Manager – Governance and Law advised that in the first instance, officers with the responsibility for managing the ZET and the Chair of the Education and Families Committee should be approached to see if it was something that required to be brought to the attention of the Council. If Members felt that it was not satisfying current needs, a notice of motion could be presented to the Council.

Members commented positively on the comprehensive and detailed report, which illustrated what the Council was achieving and identified the issues to consider in moving forward.

The Chair concurred, and thanked all staff and Members for their work, particularly in respect of the COVID-19 response. The report was favourable and identified positives and negatives. The positives were very clear - there was strong leadership in place, the Council continued to be open and transparent, and was in a healthy position compared to other Councils and partnerships regarding its COVID-19 response. There were concerns around finance and the unsustainable draw on reserves could not continue. Savings would have to be made, though it was difficult to plan ahead given the current situation.

It was noted that the earlier motion did not include recommendation 1(g), and the mover had left the meeting before a seconder had been received. Therefore Mr Leask moved that the Committee approve recommendations 1.1(a) to (g) in the report, and Mrs Lyall seconded.

Decision:

The Audit Committee:

- **NOTED** the findings of the 2019/20 audit and the audit opinion as contained in the external auditor's annual report at Appendix 1
- **NOTED** the Action Plan as incorporated in Appendices 1 and 2
- **NOTED** the progress made in addressing audit recommendations made following the 2018/19 audit (Appendix 3)
- **CONSIDERED** a verbal report by the external auditor
- **CONSIDERED** the audited Annual Accounts for 2019/20 for Shetland Islands Council (Appendix 4)
- **APPROVED** the annual governance statement contained within the audited Annual Accounts for 2019/20 (Appendix 4)
- **CONSIDERED** the audited Annual Accounts for 2019/20 for the Zetland Educational Trust (Appendix 5).

The meeting concluded at 11.10am.

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Chair