

MINUTES

A & B

Audit Committee

Auditorium, Shetland Museum and Archives, Hay's Dock, Lerwick

Thursday 9 February 2017 at 10am

Present:

A Duncan	B Fox
A Manson	T Smith
M Stout	A Westlake
V Wishart	

Apologies:

M Burgess	S Coutts
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In attendance (Officers):

C Ferguson, Director of Corporate Services
J Belford, Executive Manager – Finance
C McIntyre, Executive Manager – Audit, Risk and Improvement
A Tait, Solicitor
L Adamson, Committee Officer

Also in Attendance

P Kenny, Audit Director, Deloitte

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

Mr Duncan declared interests in Item 1, as a Trustee of Shetland Charitable Trust and as his wife is a beneficiary of the Council's Pension Scheme.

Ms Westlake declared an interest in Item 1, as a Trustee of Shetland Charitable Trust.

Ms Manson declared an interest in Item 1, as a Trustee of Shetland Charitable Trust.

Minutes

The Committee confirmed the minutes of the meeting held on 12 December 2016 on the motion of Mr Fox, seconded by Ms Manson.

01/17 Annual Audit Plans 2016/17 for Shetland Islands Council and Shetland Islands Council Pension Fund

The Committee considered a report by the Executive Manager – Finance (F-009-F). The Annual Audit Plans presented the planned audit work for the 2016/17 financial year by the Council's new external auditors, Deloitte LLP.

The Chairperson welcomed Mr P Kenny, Deloitte, to the meeting.

In introducing the report, the Executive Manager – Finance advised that Appendix 3 “Briefing on Audit Matters” provided a good summary of the role and purpose of the audit.

Mr P Kenny, Deloitte, provided a summary of the Key Messages of the audit, where he advised on the financial challenges, the significant risks, the audit dimensions and the Code of Audit Practice. In referring to page 12 which informed on the Valuation of Property Assets, he said that a specialist property team will be deployed to challenge the assumptions in terms of valuations.

The Chairperson thanked Mr Kenny for this introduction and he sought questions from the Committee.

In terms of the “Significant Risk” identified relating to “recognition of grant income, Mr Kenny advised that this was a standard risk that has to be included in all Local Authority audits, as dictated by Auditing Standards. Mr Kenny added that that he did not envisage there would be any issues in this area.

In response to questions, Mr Kenny confirmed that adherence to the Medium Term Financial Plan (MTFP) will be a key part of the audit, and community engagement will be an area of focus for the Audit Committee going forward. He added that community engagement was also one of the Accounts Commission’s key priorities for regular progress from Councils over the next 5 years, with other areas of focus being integration, joint working and collaboration.

During the discussion, comment was made on the considerable change over the term of this Council in terms of budget reductions, while continuous improvements have been made by all Directorates on the provision of high quality services. It was questioned how the Council, as a small local authority, will compare with other Local Authorities in terms of financial challenges and on the auditing process going forward. Mr Kenny advised on the need to be realistic and pragmatic on best value considerations, where he reported that a baseline analysis will be established in the first year, and expectations agreed for the next five year period.

In response to a question, Mr Kenny provided clarity in terms of the basis of materiality as set out on Page 9 of the Audit Plan, which he advised is based on auditing standards. He added that the 1.6% of gross expenditure that has been applied is in line with the vast majority of other Local Authorities in Scotland.

In responding to a question on the first Audit Dimension “Financial sustainability” as set out on page 14, Mr Kenny advised on the need for the Council to follow a more structured approach, and for fundamental and sustainable change in how the Council operates. In response to a further question, Mr Kenny said that should the Council not deliver on sustainability or on delivery of best value these observations would be made during the audit reporting.

In referring to page 6 of the Audit Plan, the Chair sought an update on progress with the Code of Corporate Governance. The Executive Manager – Finance advised that work was ongoing in that regard, and the revised Code will be presented during the March cycle of meetings.

In response to a question, Mr Kenny confirmed that the Strategic Priorities, as listed on Page 7 of the Audit Plan, are national guidance that will feature in all audits.

Reference was made to the Section “Consideration of group entities” where an update was sought in terms of the consolidation of the SCT. During the discussion, the Committee was advised that no decision has yet been made, but discussions are taking place between the Executive Manager – Finance, Mr Kenny and the Audit Team in terms of a paper to be prepared before the end of the financial year.

Comment was made on the Audit Fees on page 33, where for a small community the fee was still too high. In that regard, the Chair sought a review of the audit fee for the Council. Mr Kenny advised that the fee is set by Audit Scotland nationally, and that Deloitte do not have discretion, however he would relay the concern back to Audit Scotland.

Reference was then made to the audit fee for Zetland Educational Trust (ZET), which the Chair advised was a ridiculous amount for such a small Trust, and he sought a significant reduction. Mr Kenny advised that he would review the audit fee for ZET and report back.

In referring to page 4 of the Pension Fund Audit Plan, Mr Kenny reported on the Pension Fund changes, the significant audit risks, other areas of audit focus and the four audit dimensions.

Reference was made to the statement on page 15, “There is a risk that investments are not valued accurately in the Pension Fund’s financial statement due to the level of judgement involved in pricing such investments” where clarity was sought on the level of risk and the relation to materiality benchmarking. Mr Kenny advised that this is not highlighted as a significant risk and he was confident mitigations are in place in terms of valuations of investments, and he did not anticipate any issues.

In response to questions, the Executive Manager – Finance advised on the process for setting the audit fee and structure, and he reported that a clear indication had been given in this first year for the 5 year period to 2021/22. Mr Kenny also advised on the different elements that applied in calculating the audit fee.

Decision:

The Committee noted the contents of the Audit Plans for 2016/17 for Shetland Islands Council and Shetland Islands Council Pension Fund, from the Council’s external auditors, Deloitte LLP.

The meeting concluded at 11am.

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Chair

