



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

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

Telephone: 01595 744550  
Fax: 01595 744585  
committee.services@shetland.gov.uk  
www.shetland.gov.uk

If calling please ask for  
**Leisel Malcolmson**  
Direct Dial: **01595 744599**  
Email: louise.adamson@shetland.gov.uk

Date: 21 June 2019

Dear Sir/Madam

You are invited to the following meeting:

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

Apologies for absence should be notified to Leisel Malcolmson 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.

**Items**

1. Internal Audit Annual Report 2018/19  
*CRP-15*
2. Annual Governance Statement 2018/19  
*F-043*
3. Interim Audit Report on the 2018/19 Audit – Shetland Islands Council  
*F-042*



<b>Meeting(s):</b>	<b>Audit Committee</b>	<b>26 June 2019</b>
<b>Report Title:</b>	<b>Internal Audit Annual Report 2018/19</b>	
<b>Reference Number:</b>	<b>CRP-15-19-F</b>	
<b>Author / Job Title:</b>	<b>Duncan Black Chief Internal Auditor</b>	

## **1.0 Decisions / Action required:**

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

## **2.0 High Level Summary:**

- 2.1 The attached Internal Audit Annual report provides the Audit Committee with an overview of the work of Internal Audit for the year ended 31 March 2019.

## **3.0 Corporate Priorities and Joint Working:**

- 3.1 A sound system of internal control and governance arrangements assists the Council in achieving its strategic objectives.

## **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, Deloitte.
- 4.2 During 2018/19 the role of the Chief Internal Auditor was passed to Audit Glasgow (Glasgow City Council). The joint working between the two Councils to provide internal audit services is progressing well. However, this means that 2018/19 has been a transitional year for internal audit and it is important to note that Audit Glasgow is reliant on the work undertaken prior to appointment in forming the 2018/19 conclusions and overall opinion. All assurance fieldwork has been completed for the Council as planned for 2018/19, and the key findings from our assurance reports are formally reported to the Audit Committee.
- 4.3 During 2018/19 the following main issues were noted:
- 4.3.1 There is no up to date corporate policy on business continuity and there are areas of the Council where there is no up to date Business Continuity Plan in place. This increases the risk that the Council's business critical functions cannot be delivered in the event of a business continuity incident.
- 4.3.2 Following reports of a significant employee fraud at Dundee City Council in relation to payables, we reviewed the corresponding arrangements in place within Shetland. The audit highlighted that reconciliations are not undertaken

between key financial systems, and that system administrators are able to undertake the entire accounts payable process. Whilst there is no evidence that this has happened in Shetland, the lessons learned from the Dundee case need to be reflected through a detailed review of system administrator access permissions and reconciliation controls.

- 4.4 Other audit findings identified during 2018/19 generally fell into the category of adherence to Council policy and procedures and included instances of non compliance.

## **5.0 Exempt and/or confidential information:**

- 5.1 None.

## **6.0 Implications:**

<b>6.1 Service Users, Patients and Communities:</b>	The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council.
<b>6.2 Human Resources and Organisational Development:</b>	Some actions for management arising from audit work may require additional training and people management actions.
<b>6.3 Equality, Diversity and Human Rights:</b>	None directly from this report.
<b>6.4 Legal:</b>	Compliance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.
<b>6.5 Finance:</b>	None directly from this report.
<b>6.6 Assets and Property:</b>	None directly from this report.
<b>6.7 ICT and new technologies:</b>	Some actions for management arising from audit work may require changes to ICT systems.
<b>6.8 Environmental:</b>	None directly from this report.
<b>6.9 Risk Management:</b>	Implementation of the recommendations in Internal Audit reports will help address risks identified through our work.
<b>6.10</b>	Audit Committee has delegated authority to consider the annual report, opinion, and summary of Internal Audit activity (actual

<b>Policy and Delegated Authority:</b>	and proposed) including the level of assurance it can give over the Council's corporate governance arrangements and other specific internal audit reports [Scheme of Administration and Delegations – Part C – Section 2.6.1].	
<b>6.11 Previously considered by:</b>	None	N/A

**Contact Details:**

**Duncan Black, Chief Internal Auditor**

[Duncan.black@glasgow.gov.uk](mailto:Duncan.black@glasgow.gov.uk)

0141 287 4053

14 June 2019

**Appendices:**

Appendix 1 - Internal Audit Annual Report 2018/19

END



**Shetland Islands Council**

**Internal Audit Annual Report**

**for the year ended**

**31 March 2019**

## **1. INTRODUCTION**

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Council to review the effectiveness of its system of internal control annually and to assess the efficiency and effectiveness of the Internal Audit function. The Regulations also require the Council to approve an Annual Governance Statement.
- 1.2 The purpose of this report is to provide a review of the performance of Internal Audit for the year 2018/19 and to give an opinion on the adequacy of the Council's system of internal control. This report helps to inform the Council's 2018/19 Annual Governance Statement, which is included in the 2018/19 audited annual accounts. The 2018/19 Draft Annual Governance Statement is included at Appendix 1.
- 1.3 Internal Audit is an independent appraisal function within the Council. The objectives of Internal Audit are to:
- examine and evaluate internal control systems and governance arrangements within the Council;
  - provide assurances to elected Members and senior officials on the adequacy and robustness of these systems; and
  - assist elected Members and officers of the Council in the effective discharge of their responsibilities.
- 1.4 Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services and Internal Audit assesses the adequacy of these arrangements. Internal Audit provides analyses, appraisals, recommendations, advice and information concerning the activities reviewed. Internal Audit reports directly to the Director of Corporate Services, and has unrestricted direct access to the Council's Chief Executive and the chair of the Audit Committee.
- 1.5 The work of Internal Audit 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, Deloitte.
- 1.6 As set out in the annual audit plan, Internal Audit adheres to standards and guidelines laid down by relevant bodies and professional institutions. In particular Internal Audit is required to comply with the Public Sector Internal Audit Standards (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).
- 1.7 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 require Internal Audit to undertake annual compliance self-assessments and a 5-yearly external assessment. The most recent external assessment confirmed that Internal Audit substantially conforms with the requirements of the PSIAS. A full self-assessment will be undertaken in 2019/20 to reflect the revised audit arrangements.



## **2. REVIEW OF INTERNAL AUDIT 2018/19**

### **2.1 Staffing**

2.1.1 In December 2018, the Executive Manager – Audit, Risk and Improvement retired from his employment with the Council, and the Internal Audit team of Glasgow City Council (under their commercial title, Audit Glasgow) was appointed to undertake the strategic Internal Audit management of the Shetland team for a period of three years, led by Glasgow's Head of Audit and Inspection. Audit Glasgow staff will manage the audit plan remotely with attendance at key events and committee meetings as required throughout the year.

2.1.2 As at 31 March 2019 there were 2.81 full-time equivalent (FTE) members of staff working in Internal Audit. The Head of Audit and Inspection has reviewed the current number of staff within Internal Audit and the skills of the team and concluded that it is adequately resourced and has the necessary skills to carry out its function.

### **2.2 The Role of the Head of Internal Audit**

2.2.1 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 Heads of Internal Audit (HIAs) 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 HIA 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.

2.2.2 To perform this role, the HIA must:

- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
- lead and direct an internal audit service that is resourced to be fit for purpose; and
- be professionally qualified and suitably experienced.

2.2.3 For each principle, the statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The statement also sets out the core responsibilities of the HIA.

2.2.4 The role of the Head of Audit and Inspection continues to meet the principles set out in CIPFA's statement.

## **2.3 Audit Plan Management – Planned Assurance Work**

- 2.3.1 All assurance fieldwork has been completed for the Council as planned for 2018/19, and the key findings from our assurance reports are formally reported to the Audit Committee.

## **2.4 2018/19 Audit Issues**

- 2.4.1 Where the audit opinion arising from an audit states that the control environment has been assessed as unsatisfactory the concerns highlighted are reported here and in the Annual Governance Statement. During 2018/19 the following issues were noted:

- There is no up to date corporate policy on business continuity and there are areas of the Council where there is no up to date Business Continuity Plan in place. This increases the risk that the Council's business critical functions cannot be delivered in the event of a business continuity incident.
- Following reports of a significant employee fraud at Dundee City Council in relation to payables, we reviewed the corresponding arrangements in place within Shetland. The audit highlighted that reconciliations are not undertaken between key financial systems, and that system administrators are able to undertake the entire accounts payable process. Whilst there is no evidence that this has happened in Shetland, the lessons learned from the Dundee case need to be reflected through a detailed review of system administrator access permissions and reconciliation controls.

- 2.4.2 Other audit findings identified during 2018/19 generally fell into the category of adherence to Council policy and procedures and included instances of non-compliance within the following areas:

- New HMRC IR35 rules on taxation of non-employees;
- People management processes, specifically leave and flexi processes, Personal Development Plans, and elements of the Corporate Travel Policy;
- Roads services, where effective stock reconciliations are not undertaken and there is a lack of audit trail in relation to cancelling previously issued tickets.

Where procedures are inadequate, do not exist or are not available to staff, poor or inconsistent practices may develop.

## **2.5 Audit Issues Reported in Previous Years**

2.5.1 For audit issues reported in previous year, the update is as follows:

- Fire Risk Assessments – recommendation implemented.
- Health and Safety Risk Assessments – a new process was implemented in April 2019 and will be reviewed during 2019/20 as part of the follow-up monitoring.
- Health and Safety monitoring programme – a programme of 22 premise visits was scheduled for completion in 2018/19, with 11 of these fully carried out. The remaining premise visits are to be undertaken in 2019/20 with progress reviewed as part of the follow-up process.
- Contractual and procurement issues – contract Standing Orders are in the process of being updated and a workshop is being prepared for relevant officers. Progress will be reviewed during 2019/20 as part of a planned procurement audit.
- Operation grants processing and monitoring – a Grants and Third Parties Payments Framework has been created and will be reviewed during 2019/20 as part of the follow-up process.

## **3. OPINION**

- 3.1 The Council has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 3.2 In providing this opinion, we have relied on the work of the former Executive Manager – Audit, Risk and Improvement up to December 2018. Based on the audit work undertaken, both prior to and following our appointment, the assurances provided by Service Directors, and excluding the issues noted above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2018/19 in the Council.

## **4. ACKNOWLEDGEMENTS**

- 4.1 I would like to take this opportunity to express my thanks to all staff from the Internal Audit team for their hard work and commitment throughout the past year. I would also like to thank the many officers in Services who assisted audit staff in the execution of their duties.

**Duncan Black**  
**Head of Audit & Inspection**  
**Audit Glasgow**

**June 2019**



	<b>Shetland Islands Council</b>	Agenda Item <b>2</b>
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<b>Meeting(s):</b>	Audit Committee	26 June 2019
<b>Report Title:</b>	Annual Governance Statement 2018/19	
<b>Reference Number:</b>	F-043-F	
<b>Author / Job Title:</b>	Executive Manager - Finance	

<b>1.0</b>	<b>Decisions / Action required:</b>
1.1	That the Audit Committee RESOLVES to approve the Annual Governance Statement 2018/19 that will form part of the annual accounts (Appendix 1).
<b>2.0</b>	<b>High Level Summary:</b>
2.1	The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a set of accounts, including an annual governance statement, by 30 June each year.
2.2	The intention is that local authorities review, at least annually, their system of internal financial control.
2.3	The 2018/19 unaudited annual accounts will be presented to the Council for approval on 26 June 2019.
<b>3.0</b>	<b>Corporate Priorities and Joint Working:</b>
3.1	The preparation and presentation of the annual accounts is a key element of the Council's overall governance and reporting arrangements.
<b>4.0</b>	<b>Key Issues:</b>
4.1	In August 2018 the Council approved the restructure of the Audit, Risk and Improvement service. With effect from 1 January 2019, the role of Chief Internal Auditor is now undertaken by Audit Glasgow, the commercial arm of Glasgow City Council's Internal Audit team, who also provide the strategic planning, professional management and reporting for the Council's Internal Audit function.
4.2	<p>The format and content of the Annual Governance Statement follows guidance set out in CIPFA's 2016 publication 'Delivering Good Governance in Local Government' and includes the following key matters for Members' consideration:</p> <ul style="list-style-type: none"> <li>• The <b>Review of Effectiveness</b> section outlines how the governance framework has been evaluated for 2018/19;</li> <li>• Audit Glasgow report on any significant areas of risk in the Internal Audit Annual Report. The key items are highlighted here in the <b>Significant Governance Issues</b> section;</li> <li>• Internal audit are content that, aside from the key areas noted, satisfactory progress has been made in addressing control weaknesses and that the</li> </ul>

Council's systems of internal control, corporate governance and risk management are generally adequate and effective.		
<b>5.0 Exempt and/or confidential information:</b>		
5.1 None.		
<b>6.0 Implications :</b>		
<b>6.1 Service Users, Patients and Communities:</b>	None arising from this report.	
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.	
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.	
<b>6.4 Legal:</b>	The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a set of accounts, including an annual governance statement, by 30 June each year.	
<b>6.5 Finance:</b>	None arising from this report.	
<b>6.6 Assets and Property:</b>	None arising from this report.	
<b>6.7 ICT and new technologies:</b>	None arising from this report.	
<b>6.8 Environmental:</b>	None arising from this report.	
<b>6.9 Risk Management:</b>	The Annual Governance Statement highlights areas of significant risk and actions being taken to address them.	
<b>6.10 Policy and Delegated Authority:</b>	<p>The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity.</p> <p>The preparation and presentation of the Annual Accounts, incorporating the Annual Governance Statement, is a key element of the Council's overall governance and reporting arrangements.</p>	
<b>6.11</b>	<i>n/a</i>	<i>n/a</i>

<b>Previously considered by:</b>		
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**Contact Details:**

Jamie Manson

Executive Manager Finance

01595 7444607

[Jamie.Manson@shetland.gov.uk](mailto:Jamie.Manson@shetland.gov.uk)

17 June 2019

**Appendices:**

Appendix 1: Shetland Islands Council Draft Annual Governance Statement 2018/19

**Background Documents:**

The Local Authority Accounts (Scotland) Regulations 2014 and Internal Audit – Annual Report 2018/19

END





# Annual Governance Statement

## Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure continuous improvement in the way it operates.

In discharging this accountability, the Council is responsible for establishing proper arrangements for the governance of its affairs, including arrangements for the management of risk.

The Council approved and adopted its code of governance in 2012. It is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. This statement explains how the Council has complied with the code.

In August 2018 the Council approved the restructure of the Audit, Risk and Improvement service. With effect from 1<sup>st</sup> January 2019, the role of Chief Internal Auditor is now undertaken by Audit Glasgow, the commercial arm of Glasgow City Council's Internal Audit team, who also provide the strategic planning, professional management and reporting for the Council's Internal Audit function.

This statement explains how the Council complies with the Governance Code and extends to the entity included in the Council's Group Accounts.

## The Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and the activities through which it engages with its community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise

the risks to the achievement of Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2019 and up to the date of approval of the annual accounts.

The key elements of Shetland Islands Council's governance framework are:

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- the levels at which decisions can be made, referred to as the Scheme of Administration and Delegations;
- the Standing Orders and the rules around how committees are run and decisions are made;
- the Financial Regulations and rules about contracting with other parties;
- the Council's performance in relation to delivering services and securing value for money; and
- the process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

In March 2017, the Council approved a revised set of governance documents, including the Scheme of Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance. These documents can be found on the Council's website at:

[http://www.shetland.gov.uk/about\\_how\\_we\\_work/constitutionandgovernance.asp](http://www.shetland.gov.uk/about_how_we_work/constitutionandgovernance.asp)

The Council is in the process of reviewing the Governance Framework. Initial findings were reported to Council on 11 June 2019, and included approval of an updated Code of Corporate Governance. A further update will be presented to Council in September 2019.

## Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report presented by Audit Glasgow,

and also by comments made by external auditors and other review agencies and

inspection. The Annual Report can be viewed on the Council's website at:  
<http://www.shetland.gov.uk/coins/calendar.asp>

The effectiveness of the Council's governance framework has been evaluated as follows:

- Each **director** has reviewed the arrangements in their portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2018/19, no areas of weakness or concern were raised.
- The Council's **financial management** arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- The Council's **committee structure** supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- The Council's **Constitution** promotes good decision-making and adherence to the Building Better Business Cases methodology, supporting evidence-based options appraisal for the commissioning and procurement of services.
- The **Audit Committee** remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared

by the external auditor. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.

- A significant **induction and training programme** for new and returning councillors is delivered after each local election, including the May 2017 election.
- A professional, independent and objective **internal audit** service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The internal audit service followed their **Audit Plan** during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report.
- The Council's **external auditor** is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the annual accounts audit and wider scope requirements set out within the Code of Audit Practice.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Management Team and the Audit Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues reported in the 2017/18 Annual Governance Statement.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Fire risk assessments either not being in place or out of date.	Corporate Management Team	New process for recording and monitoring introduced in 2018/19. Recommendations have been addressed.	No further action required.
Health & Safety risk assessments either not being in place or out of date.	Corporate Management Team	New process for Health & Safety risk assessments implemented April 2019.	To be reviewed in 2019/20 as part of follow up monitoring.
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	Corporate Management Team	A programme of 22 premise visits was scheduled for completion in 2018/19. 11 have been fully carried out.	Remaining premise visits to be undertaken, and progress to be reviewed as part of 2019/20 follow-up monitoring.
Contractual and procurement issues identified in procurement reviews	Corporate Management Team	Officers in the process of updating the Contract Standing Orders and steps are being taken to progress a "Procurement Knowledge Workshop" for relevant officers.	To be reviewed in 2019/20 as part of a Procurement audit.
Operational grants processing and monitoring issues	Corporate Management Team	Creation of Grants and Third Parties Payments Framework which addresses the audit issues raised	To be reviewed in 2019/20 as part of follow up monitoring.

## Significant Governance Issues

During the year, the Audit Committee received a range of reports produced by Internal Audit that enabled scrutiny and questioning of officers, such that the Committee gained assurance about any weaknesses identified as well as the actions being taken to address them.

The following issues and related action plans were highlighted in the Internal Audit Annual Report as specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
Business Continuity – lack of an up to date corporate policy on business continuity. Some services identified which have not yet developed a Business Continuity Plan (BCP), and other services which have a BCP in place but it is out of date.	Executive Manager – Governance & Law	There is an increased risk that that the Council's business critical functions cannot be delivered in the event of a business continuity incident.	Although there are services with either an out of date or no BCP in place, there is a Resilience Advisor in post who can advise services through the recovery process. In addition, the recovery and relocation of ICT services is all co-ordinated by the ICT team who have an up to date recovery plan which was audited during 2017/18 with no areas of concern identified.	A new policy is in the process of being finalised which will be communicated to all service users.  The new policy will be presented to CMT (acting as Risk Board) then Policy and Resources for approval.  The possibility of utilising Firmstep for BCPs will be explored which will ensure consistent development and central storage of plans throughout the Council.	31/10/2019
Fraud Controls – Reconciliations not carried out between key financial systems. System administrators have access to undertake entire accounts payable process, and there is no monitoring of audit logs as a compensating control.	Executive Manager – Finance	Significant financial fraud (this audit was undertaken following reported findings of a fraud valued at over £1million at Dundee City Council).	The Accounts Payable Supervisor is notified of any changes to Masterfile data by a system generated email. The post holder is not a system administrator and would be aware of any changes that have occurred by users out with the Accounts Payable team.	Quarterly reconciliations and monthly sample checks will be incorporated into the Finance team's monthly assurance checks.	30/09/2019

The 2018/19 Local Scrutiny Plan which sets out any scrutiny risks identified by the local area network (LAN), addressed several areas requiring oversight and monitoring:

- Financial sustainability and transformation:  
The Council acknowledges the challenges it faces of maintaining service delivery within the levels of decreasing Scottish Government funding. The Council through the Business Transformation Programme and Service Redesign Programme is taking action to address the funding gap and constrain growth in service demand.
- Social Care Adult Services: the risk of failing to maintain an adequate level of service due to staff recruitment difficulties and change in senior management.
- Children & Families Service: the ability to sustain quality assurance and improvement work due to a lack of capacity and recruitment difficulties. A service review is to be conducted with the aim of achieving a better balance of service delivery in the longer term in relation to accommodated children, as well as a more integrated and robust structure.
- Housing Service: the supply of housing has

been challenging, and the use of temporary accommodation has been increasing. A review of performance of social landlord services by the Scottish Housing Regulator (SHR) identified the Council as being in the bottom quartile for several areas including tenant satisfaction of the quality of their home, rent arrears and non-emergency repairs. Ongoing dialogue continues between the Council and SHR to fully understand the performance.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

## Conclusion

Overall, we consider that the governance and internal control environment operating in 2018/19 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified, and actions taken to avoid or mitigate their impact.

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Steven Coutts  
Leader of the Council  
26 June 2019

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Maggie Sandison  
Chief Executive  
26 June 2019



	<b>Shetland Islands Council</b>	Agenda Item <b>3</b>
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<b>Meeting(s):</b>	Audit Committee Shetland Islands Council	26 June 2019
<b>Report Title:</b>	Interim Audit Report on the 2018/19 Audit – Shetland Islands Council	
<b>Reference Number:</b>	F-042-F	
<b>Author / Job Title:</b>	Executive Manager - Finance	

### 1.0 Decisions / Action required:

- 1.1 That the Audit Committee:
- NOTES the interim findings of the 2018/19 audit as contained in the external auditor's Interim Report at Appendix 1;
  - NOTES the agreed Action Plan as outlined in the Interim Report;
  - CONSIDERS a verbal report by the external auditor;
- 1.2 That Shetland Islands Council RESOLVES to:
- NOTE the interim findings of the 2018/19 audit as contained in the external auditor's Interim Report at Appendix 1;
  - APPROVE the agreed Action Plan as outlined in the Interim Report;

### 2.0 High Level Summary:

- 2.1 The Local Authority Accounts (Scotland) Regulations 2014 (“the Regulations”) require the Council to prepare and publish annual accounts that are subject to external audit. The Council’s appointed external auditor is Deloitte LLP.
- 2.2 Section 10 of the Regulations requires the Council to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.
- 2.3 For 2018/19, Deloitte LLP have introduced an Interim Audit report that provides an update on the wider issues that auditors are required by Audit Scotland to examine as part of their overall audit of the Council.
- 2.4 The Interim Report contains a number of recommendations for improvement across the following four audit dimensions:
- Financial sustainability
  - Financial management
  - Governance and transparency
  - Value for money

The recommendations are contained in the audit action plan, which has been agreed with officers.

2.5	The audit of the financial statements will take place before 30 August and a final audit report and opinion will be issued in September for consideration alongside the audited annual accounts for 2018/19.
<b>3.0 Corporate Priorities and Joint Working:</b>	
3.1	The preparation and presentation of the annual accounts is a key element of the Council's overall governance and reporting arrangements.
<b>4.0 Key Issues:</b>	
4.1	As part of the annual audit process, the Council's external auditors are required to deliver an independent report and opinion on whether the Council has prepared its annual accounts in line with applicable accounting standards, that income and expenditure is lawful and whether or not the financial statements represent a true and fair view. This part of the audit is currently underway and is on track to be completed before the statutory deadline of 30 August 2019.
4.2	<p>In line with Audit Scotland's Code of Audit Practice, external auditors are also required to report on aspects other than the numbers and disclosures made in the annual accounts and financial statements. Audit Scotland require conclusions to be reported on the following four audit dimensions:</p> <ul style="list-style-type: none"> <li>• Financial sustainability</li> <li>• Financial management</li> <li>• Governance and transparency</li> <li>• Value for money</li> </ul>
4.3	In previous years, external auditors have reported their conclusions, recommendations and overall audit opinion at the end of the audit process, in September, when the annual accounts are signed off.
4.4	For the 2018/19 audit, the external auditors have introduced an interim reporting stage into the audit process. This change allows the Council to receive recommendations earlier in the audit process so there is more time to demonstrate improvement ahead of the next years' audit. The change will also allow more time for the Council to consider the matters raised, rather than condensing all recommendations into one final audit report at the end of the process.
4.5	<p>The Interim Report (Appendix 1) sets out the external auditors' findings in respect of the four audit dimensions outlined in 4.2. The key findings in these areas are:</p> <ul style="list-style-type: none"> <li>• <b>Financial sustainability:</b> The Council is not in a financially sustainable position. While the Council 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 of £3.4m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24. We consider the medium-term funding gap identified by the Council to be optimistic and underestimates the</li> </ul>



significance of the funding gap by approximately 40%. The Council needs to prioritise and progress 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.

- **Financial management:** The Council has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against budget and changes to the budget in year. There are particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget, having not delivered over £54m (30%) of projects between 2012/13 – 2018/19. To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Given recent changes in key financial posts, the Council needs to consider the training provided to its finance function.
- **Governance and transparency:** The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always 'striving for more'. While attendance at meetings is good, scrutiny could be improved through better sharing of Council workload and the development of tailored training plans for Members. The Council needs to significantly improve its approach to self-assessment. It should develop a self-assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self-assessment arrangements in place. The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.
- **Value for money:** While the Council's performance continues to fare well against the national average, this comes at substantial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not. Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focussed on continuous improvement. The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

## **5.0 Exempt and/or confidential information:**

5.1 None.

<b>6.0 Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	None arising from this report.
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.
<b>6.4 Legal:</b>	None arising from this report.
<b>6.5 Finance:</b>	None arising from this report.
<b>6.6 Assets and Property:</b>	None arising from this report.
<b>6.7 ICT and new technologies:</b>	None arising from this report.
<b>6.8 Environmental:</b>	None arising from this report.
<b>6.9 Risk Management:</b>	The Interim Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
<b>6.10 Policy and Delegated Authority:</b>	<p>The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity.</p> <p>The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audited accounts of the Council and related certificates is a matter reserved by the Council.</p>
<b>6.11</b>	n/a

<b>Previously considered by:</b>	
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**Contact Details:**

*Jamie Manson, Executive Manager - Finance*

[jamie.manson@shetland.gov.uk](mailto:jamie.manson@shetland.gov.uk)

*26 June 2019*

**Appendices:**

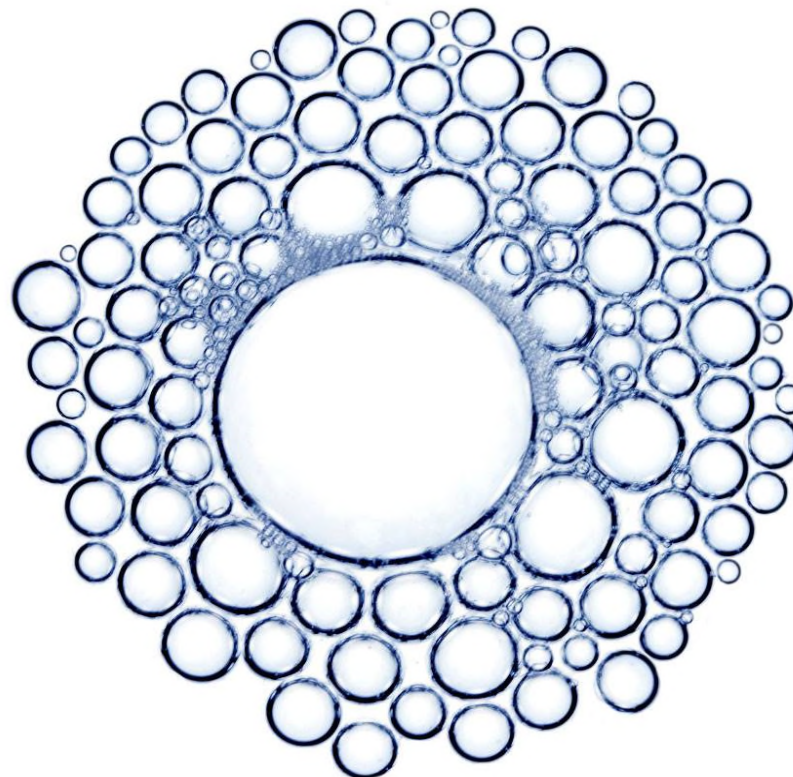
*Appendix 1: Interim Report to the Audit Committee on the audit for the year ended 31 March 2019*

*Appendix 2: Sector Developments*

**Background Documents:**

*The Local Authority Accounts (Scotland) Regulations 2014*





## **Shetland Islands Council**

### Interim Report to the Audit Committee on the audit for the year ended 31 March 2019

Issued 20 June 2019 for the meeting on 26 June 2019

# Contents

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## 01 Our report

Introduction	3
Financial sustainability	6
Financial management	14
Governance and transparency	20
Value for money	28
Other specific risks	36

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## 02 Appendices

Purpose of our report and responsibility statement	39
Action plan	40

# Introduction

## The key messages in this report

I have pleasure in presenting our report to the Audit Committee (the Committee) of Shetland Islands Council (the Council) as part of our 2018/19 audit responsibilities. I would like to draw your attention to the key messages from this paper:

### Background

As set out in our plan which was presented to the Committee in March 2019, 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 has considered how the Council is addressing these and our conclusions are set out within this report.

### Scope of audit

Our audit work covered the four audit dimensions as follows:

- Financial sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

The audit incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers, care income and increased focus on openness and transparency.

Our audit also considered the five Strategic Audit Priorities set by the Accounts Commission, as detailed within our Audit Plan.

As part of this review we met with key members of the Corporate Management Team ('CMT'), a number of other staff and a sample of elected members. Our work is also informed by our attendance at Committee and Council meetings in November, December and March.

We then reviewed evidence to support our judgements and conclusions which are contained within this report.



# Introduction (continued)

## The key messages in this report (continued)

### Overall conclusions

**Financial sustainability** – The Council is not in a financially sustainable position. While the Council 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 of £3.4m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24. We consider the medium-term funding gap identified by the Council to be optimistic and underestimates the significance of the funding gap by approximately 40%. The Council needs to prioritise and progress 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.

**Financial management** – The Council generally has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against budget and changes to the budget in year. There are particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget, having not delivered over £54m (30%) of projects between 2012/13 – 2018/19. To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Given recent changes in key financial posts, the Council needs to consider the training provided to its finance function.

**Governance and transparency** – The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always 'striving for more'. While attendance at meetings is good, scrutiny could be improved through better sharing of Council business workload and the development of tailored training plans for Members.

The Council needs to significantly improve its approach to self assessment. It should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

**Value for money** – While the Council's performance continues to fare well against the national average, this comes at substantial financial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not.

Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focused on continuous improvement.

The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.



# Introduction (continued)

## The key messages in this report (continued)

### Overall conclusions (continued)

**Value for money (continued)** – If appropriately managed, progressed and monitored, the Council should achieve value for money from the decision to purchase Shetland Leasing and Property Developments Ltd ('SLAP') and progress with the College Merger.

The Council needs to work with its partners in the NHS and Integration Joint Board ('IJB') to address the issues facing the IJB, which can be progressed through a review of the Integration Scheme required by mid 2020.

Our detailed findings and conclusions are included on pages 6 to 35 of this report.

### Next steps

An agreed Action Plan is included at pages 40 – 50 of this report. We will consider progress with the agreed actions and provide an update on any significant changes in our annual audit report to the Committee in September 2019.

### Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular we have added value through our work with the Council on its Business Transformation Programme ('BTP') and Service Redesign Programme ('SRP'), sharing best practice in this area. We also believe that our input has encouraged a constructive discussion of the Council's approach to openness and transparency and how it works to improve outcomes for local residents.

# Financial sustainability

## Overview

**Financial sustainability** looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.



### Audit risks

Within our audit plan we identified a number of risk as follows:

- the Council's medium-term financial planning was insufficiently robust and did not reflect current and reasonably foreseeable circumstances;
- the Council's Business Transformation and Service Redesign programmes are not appropriately progressed, resulting in benefits not being realised and financial targets being missed; and
- the Council's long-term financial planning is inconsistent with the Scottish Government's five-year plan.

# Financial sustainability (continued)

## Short-term financial position

### Short-term financial balance

Shetland Islands Council achieved financial balance in 2018/19, with a sustainable draw on reserves of £15.31m (6.1% of carried forward usable reserves), being £4.83m less than budgeted (£20.14m) and in line with the Medium-Term Financial Plan ('MTFP'). The Council has budgeted to achieve financial balance in 2019/20, although only through a draw on reserves of £17.57m, £3.66m of which is unsustainable as set out in the MTFP.

Although the Council achieved financial balance in the year, it overspent by £4.4m on the general fund (of which £3.3m relates to one-off pension cessation costs provided relating to Shetland College and Train Shetland). This was offset by an additional surplus of £4.7m on the harbour account.

The Council needs to ensure it only budgets for a sustainable draw on reserves each year, particularly given the risk of overspends. Where the Council identifies an unsustainable draw on reserves, it needs to focus on the identification of savings rather than accepting the use of the unsustainable draw and thus removing the onus from Directorates to find efficiencies. The fact that Directorates can rely on additional money being 'found' from reserves allows work to identify and achieve savings to be a lower priority, resulting in a lower level of achieved savings and a delay in achieving them: as is evidenced by the underachievement of savings in 2018/19 and the lack of savings achieved through the BTP and SRP. The approach adopted by the Council in 2018/19 and 2019/20 risks fostering an unhealthy attitude to the use of reserves. While the Council does have a healthy level of reserves currently, it needs to ensure that this is maintained.

In order to underpin financial sustainability, the Council needs to identify and achieve savings targets on an ongoing basis. In the 2018/19 budget, the Council identified £1.94m of savings to be delivered through the SRP and BTP. Of this, just £0.65m has been achieved (34%).

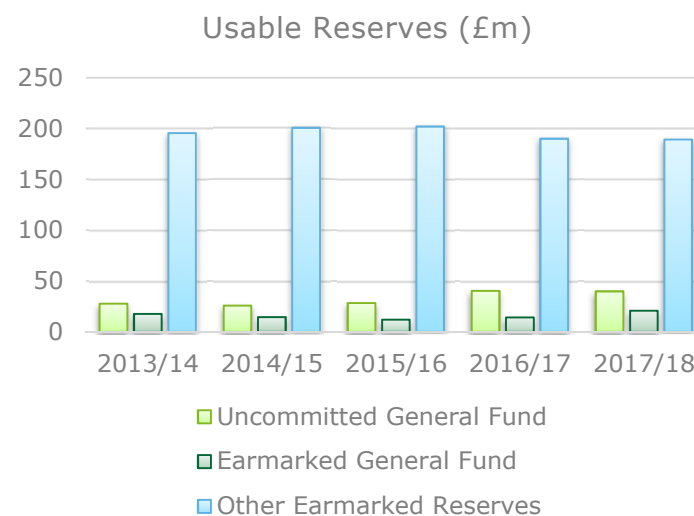
In 2019/20, although the Council made a positive step in moving away from a salami-slice approach to savings, it took a backwards step at the same time as the Council did not identify any specific savings targets. In the 2019/20 budget, the Council does not identify or quantify any savings which will be achieved in the year, which is an unfortunate step backwards. Progress against savings was reported to the relevant Committee each quarter in 2018/19 and this should continue in 2019/20 - it is difficult for this to be done when there are no savings plans presented to Committees for them to monitor.

Going forward, the Council needs to separately disclose in the budget the specific savings targets for each Directorate, enabling monitoring throughout the year. For each Directorate, it should be made clear in the budget how many of the required savings are identified/unidentified at the time, and their budget allocation should be reduced to reflect identified savings only.

### Reserves

In 2017/18, the Council had £39.81m of non-earmarked usable reserves (32.3% of net expenditure). It had a further £209.99m of earmarked usable reserves (171% of net expenditure) which are used to 'top up' the Council's annual funding. The Council currently does not consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable on an annual basis.

The Council has an Investment Strategy which is aligned to its MTFP, which quantifies the sustainable draw on reserves over the medium term. The MTFP covers the level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, and how the level and use of reserves will be monitored. The Council needs to also have a plan in place for remedial actions which will be taken if reserves fall below a certain level or are not used appropriately.



# Financial sustainability (continued)

## Medium to long-term financial sustainability

### Medium-term financial sustainability

A council is considered to be financially sustainable if they (i) have adequate reserves, (ii) are spending within budget and (iii) have credible medium-term plans in place. While Shetland Islands Council has a healthy level of reserves, it overspent on the general fund and housing revenue account budget in 2018/19 (with an overall underspend due additional harbour account surplus), is forecasting an unsustainable draw on reserves in 2019/20 and has optimistic medium-term plans in place. Given these issues and the lack of savings from the BTP and SRP (page 9) it is not possible to conclude that the Council is in a financially sustainable position.

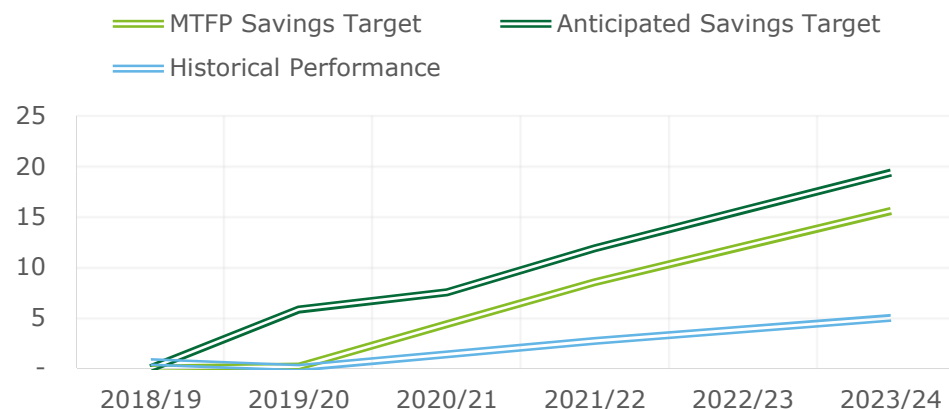
The Council's MTFP identifies the need for £15.6m of recurring savings to be achieved by 2023/24. It recognises that a strategic approach to savings should be taken, and that a plan should be produced that supports the delivery of the required savings, incorporating the SRP projects and take into account the BTP. Despite moving into the second year of the five year MTFP, this plan has yet to be produced, which undermines the achievability of the savings target.

The achievability of the savings target is further undermined by the fact that the Council assumed £7.94m would be received from the Scottish Government in 2019/20 for ferry funding (increasing to £8.81m in 2023/24). In both 2018/19 and 2019/20, £5m is to be received. If the funding received remains flat in cash terms over the course of the plan, the Council would be required to find cumulative additional savings of £16.88m, increasing the funding gap by 41.4% over that identified in the plan.

The financial sustainability of the Council is highly dependent on the performance of Council investments. The volatile nature of investment returns underlines the need to have detailed savings plans in place to achieve required savings, as the Council cannot rely on investment returns to provide the required income. For example, the Council forecasts 7.3% returns on investments in the MTFP (above the historical mean of 6.8%), but there are no plans in place for what happens if this is not achieved.

Coupled with the ferry funding, historical investment performance increases the funding gap in 2019/20 from the £0.19m to a much more challenging £5.83m. The Council's 2019/20 budget identifies a draw of £17.57m on reserves, substantially more than the £13.7m determined to be sustainable in the MTFP. The Council acknowledges that this is a financially unsustainable position.

### ANNUAL FUNDING GAP (£M)



The savings target identified by the Council in its MTFP appears to have been optimistic given historical investment performance and historical budget decisions by the Scottish Government in relation to ferry funding. While we are aware of the ongoing work in the SRP and BTP, there is no evidence that the Council has identified all the savings required to meet the target in the MTFP, or the further savings which would be required to address lower than forecast investment performance and ferry funding. Having not identified the required savings, the Council also does not have sufficient plans in place to deliver the savings.

The anticipated financial impact of BTP and SRP projects is not clearly disclosed in the budget, the MTFP or Long-Term Financial Plan ('LTFP') and it is difficult to understand what impact the BTP and SRP have had to date and the change in pace which is expected going forward. This also makes it difficult to monitor the effectiveness of these projects as a tool for ensuring financial sustainability. The Council should quantify the desired savings from key BTP and SRP projects within its budget and MTFP, accepting that until the strategic outline and full business case is prepared that these will be subject to a higher degree of uncertainty. These estimates should be updated as the projects progress and the Council better understands the financial impact which the projects are anticipated to have.

# Financial sustainability (continued)

## Medium to long-term financial sustainability (continued)

### Effectiveness of investment

The Council considers affordability of investment through the development of business cases and the completion of options appraisals. The Full Business Cases produced for both the acquisition of SLAP and the proposed College Merger demonstrate clear financial savings which can be made (page 30), identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved. The Council needs to carefully monitor progress against these actions to ensure that benefits are realised, and a post-implementation benefits realisation analysis should be performed by the Council to ensure any areas of good practice and lessons learned are appropriately used in future.

No post-completion self-evaluation of projects has been carried out in 2018/19 due to all Business Transformation Projects still being ongoing.

### Business Transformation Programme

We are pleased to note that the Council's BTP builds on the Council's role as a place leader, enables improved partnership working, is outcome focused (particularly in business cases prepared which underpin decision making) and works to reframe the relationship between the citizen and the state.

This progress was driven through effective leadership from the CEO, who became actively involved in driving the Business Transformation projects forward in the year with success in completing what were previously stalled projects. The identification of capacity, resource or 'buy in' issues and actions taken to rectify these are welcome. However, this level of involvement from the CEO should not be required nor is it sustainable.

Given the lack of savings achieved to date and the fundamental part the BTP and SRP play in the Council's ability to close its medium-term funding gap, emphasis now needs to be placed on moving from the planning stage of projects to implementation in order to realise the required savings. The Council needs to expect, accept and plan for the additional resources the implementation phase will require. The Council also needs to ensure it has clear plans in place for monitoring progress throughout implementation, monitoring whether the project is delivering what it aimed to achieve - rather than only performing a post-implementation evaluation.



### Business Transformation Programme 2016-20

While we acknowledge and welcome the progress made in relation to 'big ticket' items in the Council's Business Transformation Programme in 2018/19 (such as the college merger, acquisition of SLAP and the decision to increase capacity for looked-after children on-island), the Council needs to continue to improve its focus on transformational change and its engagement - both internally and externally - as it drives these forward as the basis for its longer term financial strategy. We welcome the level of engagement with service users and staff in the college merger project, and this should be an example followed for other projects. This will require investment in strategic leadership, planning and good governance.

# Financial sustainability (continued)

## Medium to long-term financial sustainability (continued)

### Business Transformation Programme (continued)

We are pleased to note that the Council is engaging in more demand management exercises. In 2018/19, the Council earmarked £0.33m for 'spend to save' projects, all linked to capital items (actual spend to save costs incurred in 2018/19 were £1.1m). In 2019/20, the Council increased the budgeted amount to £1.01m, with £0.25m linked to revenue items and £0.76m linked to capital items. We are aware of investment in prevention and early intervention in Children's Services and Social Care, which it is anticipated will reduce the need for crisis and intensive services over the longer term. This is a positive example of the Council funding programmes of demand management and we encourage the Council to identify further areas where such action can be taken.

In order to drive forward the BTP and SRP as the basis for future financial sustainability, the Council needs to consider the following:

- Engagement between officers, Councillors, staff and the wider community from the outset is key: Councillors and the community should understand how the approach to transformation will improve services as well as save money. The repercussions for financial sustainability if savings are not achieved needs to be clearly communicated to all stakeholders involved.
- There needs to be improved monitoring of performance against the targets set for each project. It needs to be clear (i) what work has been undertaken to date, (ii) what work is still to be completed, (iii) why there are revised due dates years later than the original due date (and the financial impact this has had), and (iv) how a decision on whether the target is "likely to be met" or not is made.
- The Council needs to consider having a dedicated team to support change and transformation, especially given that the Council noted that it had underachieved savings identified in the SRP and BTP.
- The issue of resourcing will become increasingly pivotal as the Council moves from 'planning' for change to actually implementing that change, which will require a step-change in the level of time and resource required from the transformation team. The Council needs to consider whether it is realistic and fair to expect officers to assume responsibility for this on top of their day-to-day tasks.

### Long-term financial planning

The Council revised its MTFP in August 2018, covering the period to 2023/24. Within this plan, the Scottish Government's Medium-Term Financial Strategy ('MTFS') is considered a 'key factor'. The assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the Scottish Government MTFS. However, the Council's MTFP does not make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles contained within the MTFS are reflected in the Council's financial planning, and how the Council intends to align its resources to these key principles or monitor progress against them.

We recommended that the LTFP be refreshed in our annual audit report in September 2018, and note that the Council expects to meet the target date of August 2019. In addition to recommendations made last year - in relation to improving the detail in the plan to enable it to better guide decision making and ensuring community engagement is a key part of the development of longer-term financial planning - the Council needs to consider how the Scottish Government's financial strategy - which, although covering five years, makes reference to periods beyond that - will impact on how the Council plans for the longer term. In line with best practice, the Council should include scenario analysis and risk assessments of assumptions in the plan. The Council should ensure that both the MTFP and LTFP include reference to and are aligned with the Scottish Government's National Performance Framework and its outcomes based approach, published in 2018.

In order to develop a culture where long-term financial sustainability is at the forefront of decision makers' minds, the Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision what the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term.



# Financial sustainability (continued)

## Medium to long-term financial sustainability (continued)

### Capital planning

Despite recommendations in 2017/18, no changes have been made to Asset Investment Plan approach in 2018/19. The Council needs to substantially improve its approach to capital planning, ensuring that our recommendations from 2017/18 are addressed.

This is particularly important given that the Council itself identifies as one of its principal risks the ability to maintain its infrastructure as it is growing increasingly costly with time.

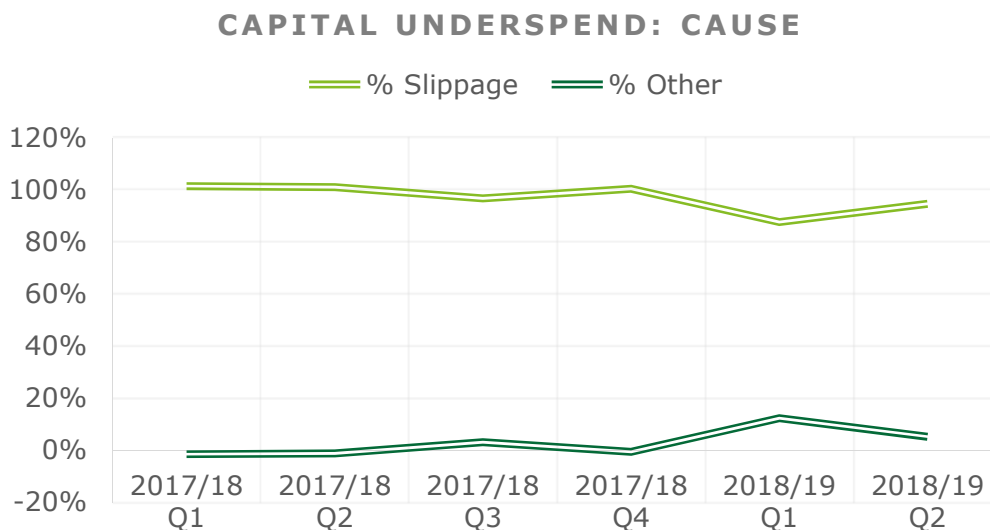
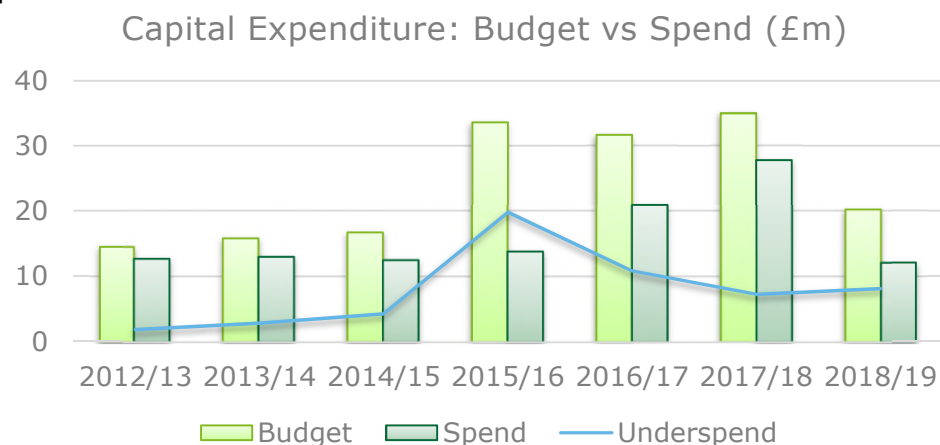
In line with best practice, the Council should clearly link its capital plan to the Corporate Plan, highlighting how the spend is aligned to the Council's priorities.

A review of capital budgeting and spend from 2012/13 - 2018/19 raises questions about the ability of the Council to effectively budget for, monitor and deliver capital projects on time and on budget. Between 2012/13 and 2018/19, the Council budgeted to spend £167.5m on capital projects. Over that period, it incurred actual spend of £112.8m, representing an average underspend of 30% per year. We note from review of the Financial Monitoring Reports ('FMR') in 2017/18 and 2018/19 that the forecast underspend increased in each quarter, from 2% at Q1 to 21% at Q4 in 2017/18, and from 10% at Q1 to 43% at Q4 in 2018/19. This raises concerns about the achievability of the Council's Asset Investment Plan and the robustness of its capital budgeting process.

There are significant revisions to the capital budget each year, but the reasons for this are not clear. For example, in 2017/18, the final revised budget for the year included £34.97m of capital expenditure, an increase of £8.77m (34%) on the original budget approved by the Council. In 2018/19, the revised budget at Q4 was £6.55m (23%) lower than the original budget.

The Council does not include in the Asset Investment Plan the due dates for projects to be completed, their actual date of completion, their original budgeted cost or their final incurred cost. Therefore, it is difficult to monitor whether the Council is delivering capital projects on time and on budget.

However, from the analysis of the underspend in each year, which the Council discloses in the Annual Accounts each year as being as a result of "slippage" over and above that budgeted, it is clear that projects are not being delivered on time: it is just not clear which projects these are. From review of the FMRs, we note that over 100% of the underspend in 2017/18 was due to slippage. This implies that those projects which were delivered were over budget.



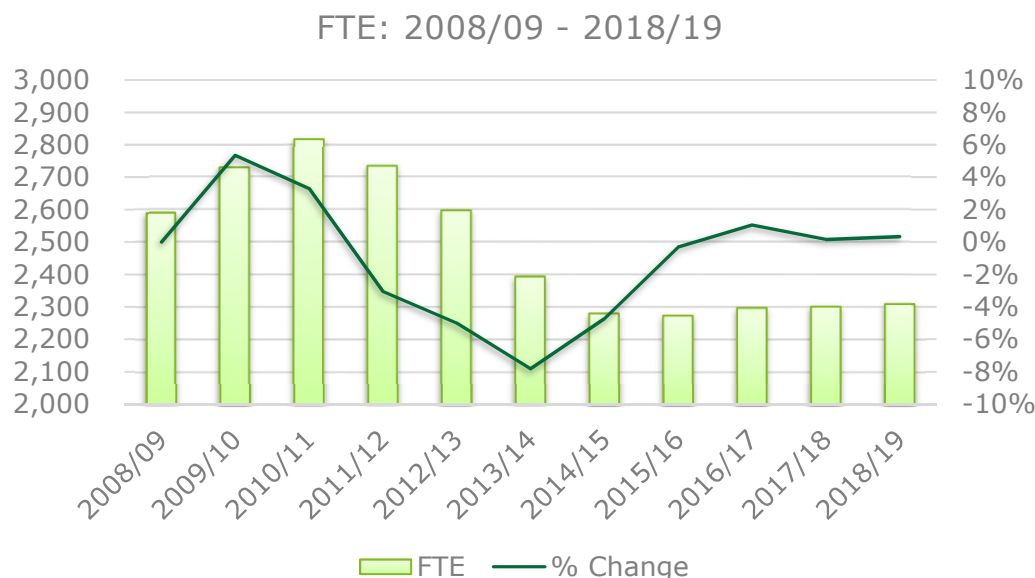
# Financial sustainability (continued)

## Medium to long-term financial sustainability (continued)

### Workforce planning

Reducing workforce is one of the main ways councils can make savings. Since its peak in 2010, Shetland Islands Council has reduced its full-time equivalent (FTE) workforce by 20%, with workforce levels remaining steady since 2015/16. However, as there has been no Council-wide workforce plan in place during this period, it is not clear if this reduction is in the right areas. Despite this reduction, there is a belief by senior management in the Council that there is an underemployment and underutilisation of staff. The Council needs to ensure that its workforce is in line with the Council Plan, service plans, BTP and SRP and demonstrate that they have the right staff to deliver the Council's objectives.

It is difficult for Councillors to monitor workforce matters, with Members noting in discussion with us that they cannot recall having considered workforce or succession planning. While we are aware that the Employee Joint Consultative Committee considers general workforce matters, the Council needs to ensure that its Workforce Plan and the monitoring of it - expected to be published in August 2019 - is sufficiently robust to address the issues identified.



Succession planning needs to be incorporated within any workforce plan, with the workforce plan focusing on the current workforce, and the workforce needed now and in the future. The Council should identify what gaps exist and what training or other actions are needed to fill them.

The key factors against which the quality of the Council's workforce plan will be assessed - and which should be borne in mind during finalisation of the plan - are:

- whether it is comprehensive and coordinated, covering the entire organisation;
- whether the plan covers a number of years; whether it includes succession planning;
- whether it is clearly linked to the Council's corporate plan; whether it is supported by Directorate-level plans (using the same template and covering the same period); and
- whether appropriate actions are identified, monitored and reported on a regular basis.

We have obtained assurance that the Council will develop a high quality workforce plan through the approach it has taken: holding sessions with all Directors and their respective teams in 2018/19, providing guidance on developing individual Directorate workforce plans which will feed into the Council's plan, with there being a separate follow up session later in the year with the Directors to monitor progress on individual plans and provide further guidance as appropriate.

While the Council has a lot of work to do in terms of effectively planning for and managing its workforce, we do acknowledge the work which has been undertaken in the year, particularly its innovative approaches to recruitment: changing its approach to head hunting, utilising the Promote Shetland contract, improving the use of apprenticeships and establishing a new graduate placement scheme.



# Financial sustainability (continued)

## Deloitte view

### Deloitte View – Financial sustainability

As discussed on page 7, the Council achieved an underspend against budget in 2018/19. This was primarily through slippage in the Asset Investment Plan and an additional surplus from the harbour account, with only 32% of the savings budgeted in the year being achieved. However, it has been unable to identify the required savings to achieve short-term financial balance in 2019/20 and has budgeted for an unsustainable draw on reserves. The Council's MTFP contains optimistic assumptions with the funding gap likely to be in excess of 40% more than that identified by the Council, increasing the cumulative funding gap to 2023/24 from £40.77m (6.5%) to £60.34m (9.6%). The assumptions in the Council's MTFP are consistent with the Scottish Government's MTFS. However, there is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.

Given the lack of savings achieved to date from the BTP and SRP, emphasis needs to be placed on moving from the planning stage of projects to implementation in order to realise the required savings. Implementation will require a step-change in the level of time and resource required from the transformation team. The Council needs to consider whether it is realistic and fair to expect officers to assume responsibility for this on top of their day-to-day tasks.

The Council needs to continue to improve its focus on engagement as it drives the BTP and SRP forward. We welcome the level of engagement with service users and staff in the Tertiary Review and Residential Care for Looked After Children projects, and this should be an example followed for other projects. The Council needs to ensure it has clear plans in place for monitoring progress and monitoring whether projects are delivering what they aimed to achieve. The Council cannot wait for projects to be fully implemented before assessing their effectiveness.

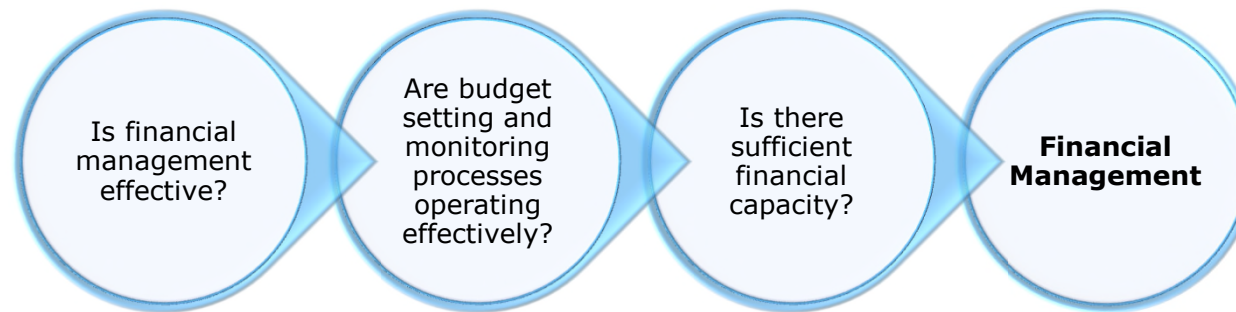
Our review of capital budgeting and spend raises questions about the achievability of the Council's Asset Investment Plan and the robustness of its capital budgeting process. For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.

We welcome the progress made on the development of the Council's workforce plan and the process the Council has adopted to its development, being a corporate, holistic approach which will be linked to and supported by directorate level plans. On completion, we will review the Council's workforce plan in 2019/20.

# Financial management

## Overview

**Financial management** is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



### Audit risks

Within our audit plan we identified a number of risk as follows:

- the finance team capacity is insufficient to deal with the scale of the work required; and
- the underlying financial performance of the Council is not transparently reported.

# Financial management (continued)

## Financial performance

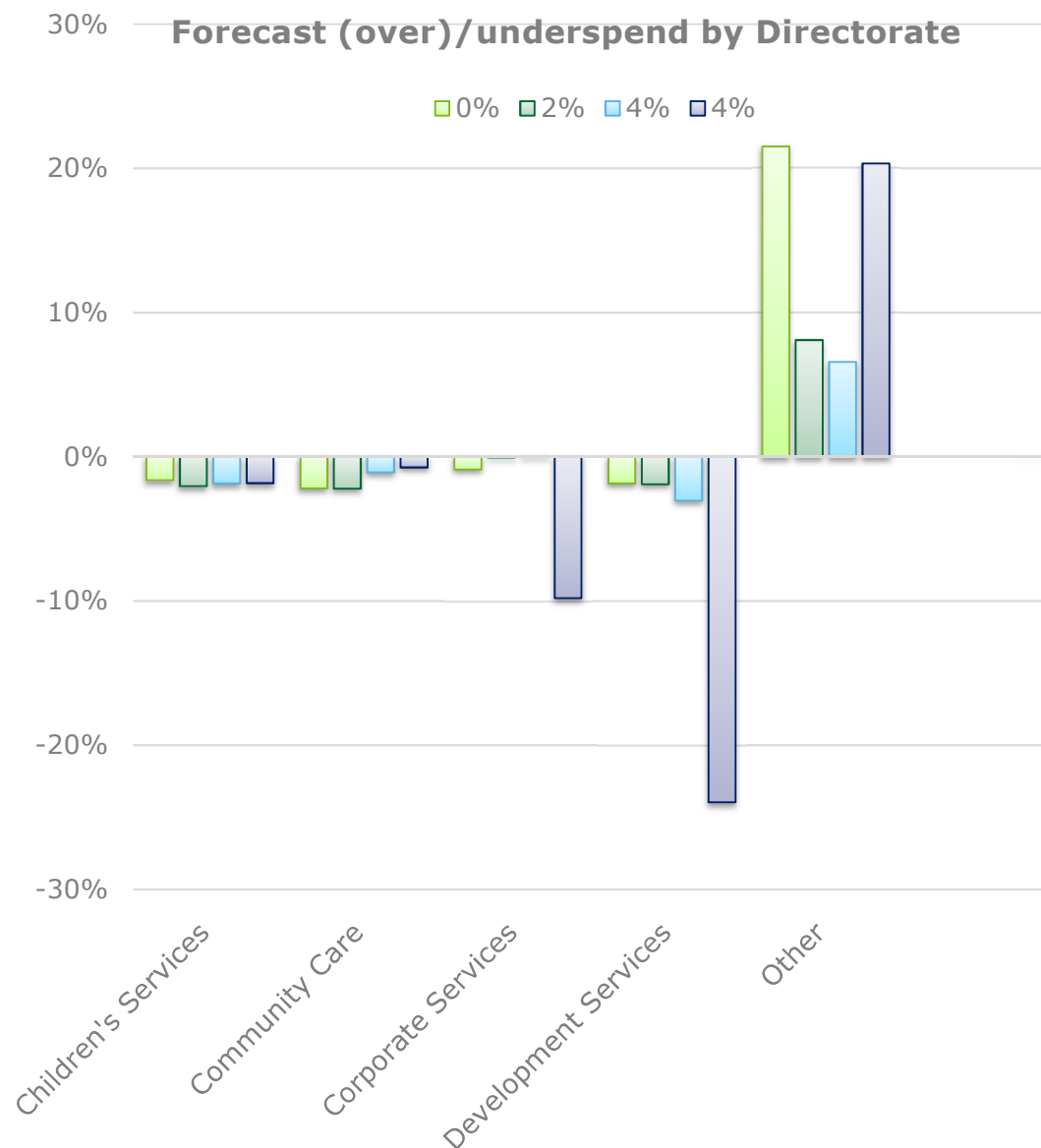
### Assessing financial performance

The original 2018/19 budget approved by the Council budgeted general fund net expenditure of £107.71m in the year. This has been repeatedly revised in the year, to £109.94m in Q1, £110.15m in Q2, £110.18m in Q3 and £109.93m in Q4. The increase in spend is being funded by additional draws on reserves.

It is difficult for Members to assess the financial performance of the Council given that the FMRs and outturn reports presented to the Policy & Resources Committee ('PRC') and the full Council only refer to forecast spend to the year-end. There is no information provided on the actual spend incurred in any given period to provide assurance to the Council that financial performance is in line with budget at any given point in time in the year. Going forward, FMRs should present information on actual expenditure in each quarter, in addition to the forecast outturn for the full year as at the end of each quarter.

We note from discussion with management that although the FMRs were reporting a forecast overspend throughout the year, the Council had actually incurred an underspend to date. This has arisen as management note that budget holders have a tendency to be overly prudent in estimating spend. The finance function needs to become more involved in forecasting to understand and scrutinise how the forecast expenditure will be incurred and whether this is realistic. The Council should consider adopting a 'business partnering' structure for finance to enable this, as discussed on page 17.

From our discussions with both Councillors and officers, we noted that there are some issues with Councillors understanding and assessing financial information, including its limitations, and knowing how to properly scrutinise it and gain assurance over it. While there have been improvements in 2018/19 following our recommendation to include narrative for changes and variances in the budget, this needs to be significantly improved to provide explanations for why variances have occurred, not just what they consist of.



\* Other includes cross-directorate charges, contingencies, financing costs, investment income and recharges.

# Financial management (continued)

## Budgetary control systems

### Financial reporting

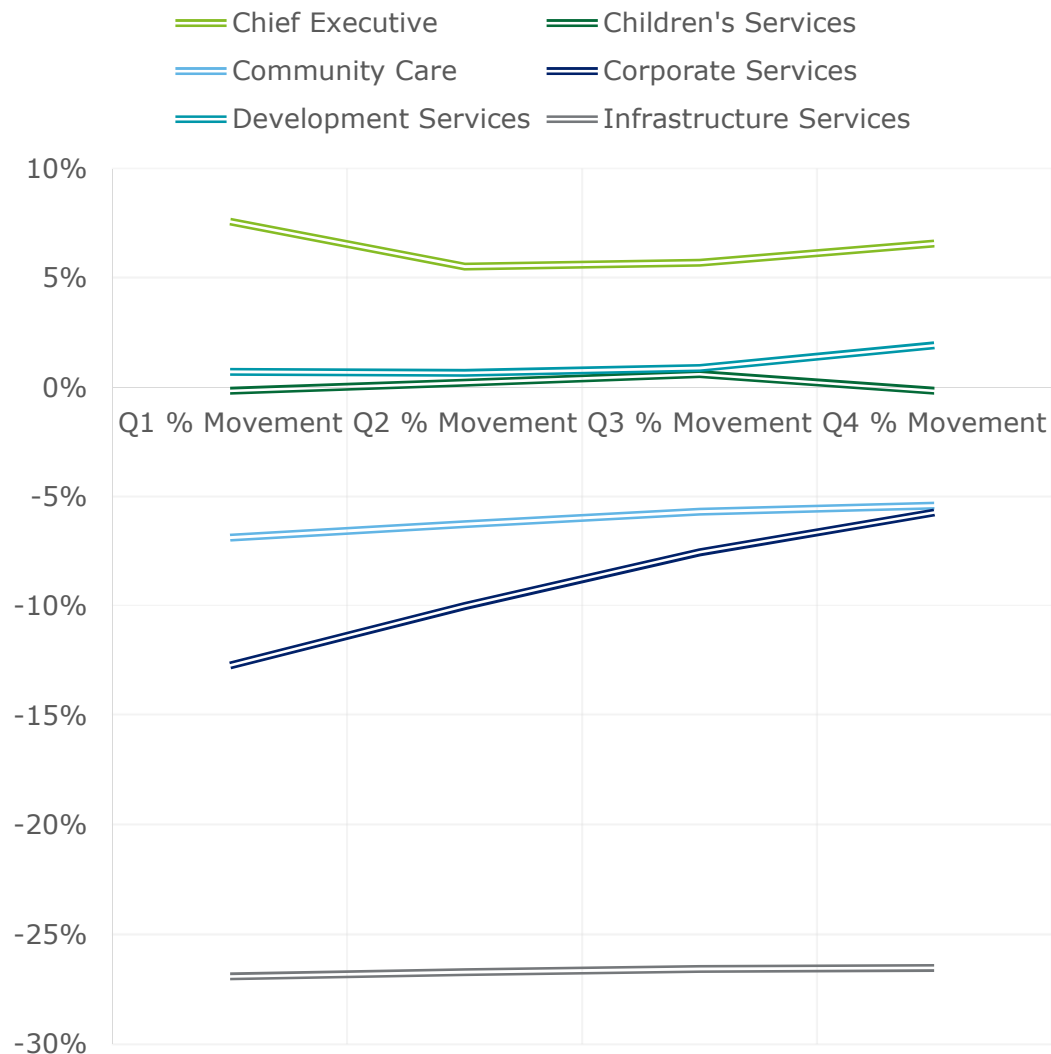
The Council has effective financial monitoring and reporting arrangements in place. Senior management and Councillors regularly review progress. The CMT and the PRC review financial performance monthly and quarterly respectively.

Amendments to the budget are made throughout the year, to take account of changing circumstances and events which were not foreseen when the budget was agreed. Revisions to the budget are referred to in the FMRs, however, these are at a high level and do not provide any detail on why these revisions were required and why they weren't identified in the original budget. The reallocations within the budget are substantial - £16.39m - but insufficient information is provided to enable appropriate challenge of the reasons for this.

Although the change to the overall budget is immaterial - 2% movement, £2.22m - the movement within categories is more substantial, particularly within infrastructure (27%) due to ferry funding, corporate services (6%).

This is important given the context of 2017/18, when Infrastructure Services underspent its budget by £1.07m (5%). Despite this, the 2018/19 budget included a slight increase on the 2017/18 budget. Similarly, Corporate Services underspent by £0.53m (6%) in 2017/18. Again, despite this, the 2018/19 budget included a substantial increase on the previous year's budget. It is questionable how reasonable it was to assume in the budget that the budget allocation to these groupings would be fully utilised in 2018/19 given the underspends on lower budgets in 2017/18. This has consequences for the accuracy of budgeting across the Council.

**BUDGET AMENDMENTS BY DIRECTORATE  
2018/19 (%)**



# Financial management (continued)

## Budgetary control systems (continued)

### Budget setting

The Council's budget makes clear links to the MTFP and the impact the budget has on the short-term MTFP calculations. The budget should quantify the impact of the current year decisions on the funding gaps identified in the MTFP, rather than just focusing on the impact in the coming year.

Although the Council makes reference to the Corporate Plan in its budget, this is limited to four sentences. There is no analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan.

Further, although 'outcomes' are mentioned several times throughout the budget, this is only in a high level sense: there is no information of the outcomes the Council expects to be progressed (and to what extent) by the budget, which makes it difficult for Members to assess to what extent budgetary decisions are impacting on outcomes achieved. The Council has noted that this is a work in progress, although no progress was made in the year with this being due to a lack of time and resources, and insufficient capacity and knowledge to determine the best way to progress it.

A week was spent between officers and Councillors in November 2018 to outline and agree how the Council can manage budget growth. This resulted in each Director being assigned 5-6 priorities to identify growth management areas and tie these into activities. From our discussion with Councillors, we noted that they felt there were no surprises in the budget, suggesting that engagement is effective.

In line with good practice, the Council should maintain a central record of all queries received from Members on the budget and answers provided, with this being publicly available, thereby ensuring that all Members are equally informed on the budget and that the public can be assured that appropriate scrutiny is applied to the budget.

### Financial capacity

The Finance Team is led by the Executive Manager – Finance and Team Leader – Accountancy. There has been a change in the Executive Manager – Finance in the year, with Jamie Manson taking up the position in September 2018. There was also a change in the key Financial Accountant role at the Council in January 2019.

Based on our observations and interactions through the audit, we conclude that there are sufficient financial skills within the Council at junior and senior levels. Through our discussions, concerns have been raised about capacity at senior levels within the finance function.

Shetland Islands Council has not carried out a review of the finance structure, with the structure and model used being a legacy issue. Given the issues highlighted with financial management and monitoring, a review of the finance structure should be carried out to assess whether changes in the finance structure and model (moving to a business partnering approach) could result in improvements, as discussed in our sector developments paper.

# Financial management (continued)

## Systems of internal financial control (continued)

### Internal audit

The Council's Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audits presented to the Audit Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2018/19, we have noted that no frauds have been identified, and management has either addressed or made plans to address the risks highlighted.

In 2018/19, the Council's Chief Internal Auditor retired. An opportunity was taken to outsource the internal audit service, with the strategic direction for the internal audit now being set by 'Audit Glasgow', the internal audit function within Glasgow City Council, who provide internal audit services to a number of other bodies. The Council is retaining several internal audit staff, thereby ensuring continuity of knowledge. The transition has been well managed and offers an opportunity for the Council to make use of a wider base of expertise.

### Standards of conduct for prevention and detection of fraud and error

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements to be well designed and appropriately implemented.

### National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland by 30 June 2019. A number of issues have been highlighted, including:

- The Audit Committee did not review the self-appraisal checklist referred to in the 2018 NFI report to inform planning and progress of the 2018/19 NFI exercise.
- Internal audit does not monitor the approach to NFI or outcomes.
- The NFI key contact is the Team Leader – Revenues and Benefits, which is not the norm nationally and they do not consider themselves to be an appropriate officer for that role (this view was shared by the previous Executive Manager – Finance), nor is sufficient time available for the NFI exercise.

These issues are similar to those highlighted in 2016/17 and remain unaddressed despite audit recommendations at the time.

A summary of the matches reported in the NFI system is provided in the table below which notes that no frauds or errors have been identified from the matches processed to date.

	Total
Total matches flagged	2,161
Total processed	1,414
Frauds	-
Errors	-
Savings	-

# Financial management (continued)

## Deloitte view

### Deloitte view – Financial management

Shetland Islands Council drew on £15.31m of reserves in 2018/19. Throughout the year, the Council was forecasting an overspend, despite having incurred underspends to the date of reporting. Going forward, FMRs should present information on actual expenditure in each quarter, in addition to the forecast outturn for the full year as at the end of each quarter. This will enable the Council to challenge where overspends are anticipated more effectively. To further improve scrutiny, narrative in the FMRs needs to be significantly improved to provide explanations for why variances have occurred, not just what they consist of.

Revisions to the budget are referred to in the FMRs, however, these do not provide any detail on why these revisions were required and why they weren't identified in the original budget. The revisions are substantial but insufficient information is provided to enable appropriate challenge of the reasons for this.

The Council's budget makes clear links to the MTFP and the impact the budget has on the short-term MTFP calculations. In future, the budget should quantify the impact of the current year decisions on the funding gaps identified throughout the MTFP, rather than just focusing on the impact in the coming year. The Council also needs to better align its budget with its Corporate Plan, making clear how the budget progresses the Council's priorities.

There has been a change in the Executive Manager – Finance in the year as well as the key Financial Accountant role. We are satisfied that there are sufficient financial skills within the Council at junior and senior levels. However, concerns have been raised about capacity within the finance function. To help address this, the Council should consider reviewing the structure of its finance function (considering a business partnership role, as discussed on page 17) and the Council should ensure that training needs of key staff are assessed on an annual basis and training plans specific to the role and individual are developed.

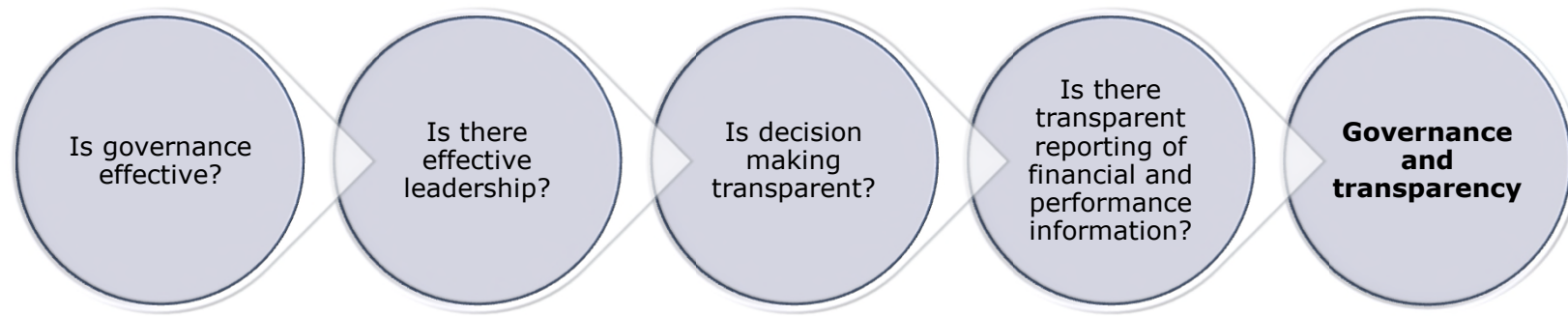
The Council has changed internal auditors in the year, given the retirement of its Chief Internal Audit. The internal audit function is now provided by 'Audit Glasgow', the internal audit service in Glasgow City Council. The transition has been well managed and offers an opportunity for the Council to make use of a wider base of expertise.

We note that issues raised in relation to the NFI exercise in 2016/17 have arisen again in the 2018/19 exercise, namely that the officer responsible for the exercise is not the appropriate officer, that internal audit do not monitor progress and that the Audit Committee did not review the self-appraisal checklist in the 2018 NFI report. The Council needs to put plans in place this year to ensure these issues do not recur for the 2020/21 exercise.

# Governance and transparency

## Overview

**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



### Audit risks

Within our audit plan we identified a number of risk as follows:

- the Council's governance arrangement are not sufficient;
- there is insufficient governance and scrutiny of Council actions; and
- the Council's approach to openness and transparency is not keeping pace with public expectations and good practice.



# Governance and transparency (continued)

## Leadership, vision and governance arrangements

### Council and Partnership plans

The Shetland Partnership Plan runs from 2018-2028. Now into its second year, we are pleased to note that the Council - as the largest member of the Partnership - is leading the development of delivery plans.

However, there are no clear 'due dates' for when these delivery plans will be available and it is difficult to monitor performance against the Partnership Plan as a result of that, or to assess whether the Partnership is on track to achieve its plan. The Council needs to set clear timeframes for when the delivery plans will be available and ensure that their development is properly prioritised and resourced. If delivery plans are not published in the near future, the Partnership risks losing trust amongst the community and the workforce who will be key to achieving the desired outcomes.

While the Council Plan does not contradict the Partnership Plan, they are not aligned. We noted this last year and recommended changes, and note that no changes have been made to the Council Plan or Partnership Plan in the year. As the Council Plan is due to be refreshed in 2020, the Council should ensure that it either aligns with the Partnership Plan or ensures clear links between the Council Plan and the Partnership Plan, demonstrating how the Council Plan is complementing the Partnership Plan.

### Leadership

The Council and its partners have a clear vision for what it wants to achieve for the people of Shetland. Councillors and staff support the vision.

The Council has strong executive leadership, driven by the CEO (who was key to the progress and completion in many areas of the Business Transformation Programme in 2018/19, as discussed on page 30). The CEO and wider leadership team need to continue to drive progress together, ensuring that there is sufficient buy-in across the team, rather than being so heavily reliant on the CEO.

The Shetland Partnership Plan's **vision** is:

"Shetland is a place where everyone is able to thrive; live well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges."

The Shetland Partnership Plan has agreed four **strategic priorities** to help make this happen:

**Participation**

**People**

**Place**

**Money**

The Council Plan's **vision** is:

"We want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland."

The Council has agreed five **strategic priorities** to help make this happen:

**Young people**

**Older people**

**Economy & housing**

**Community strength**

**Connection & access**

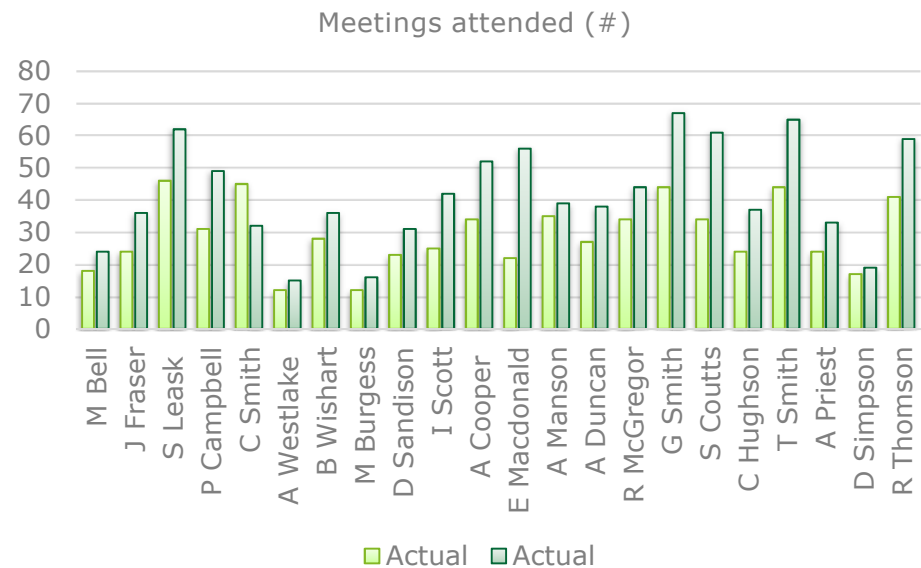
# Governance and transparency (continued)

## Leadership, vision and governance arrangements (continued)

### Effectiveness of governance

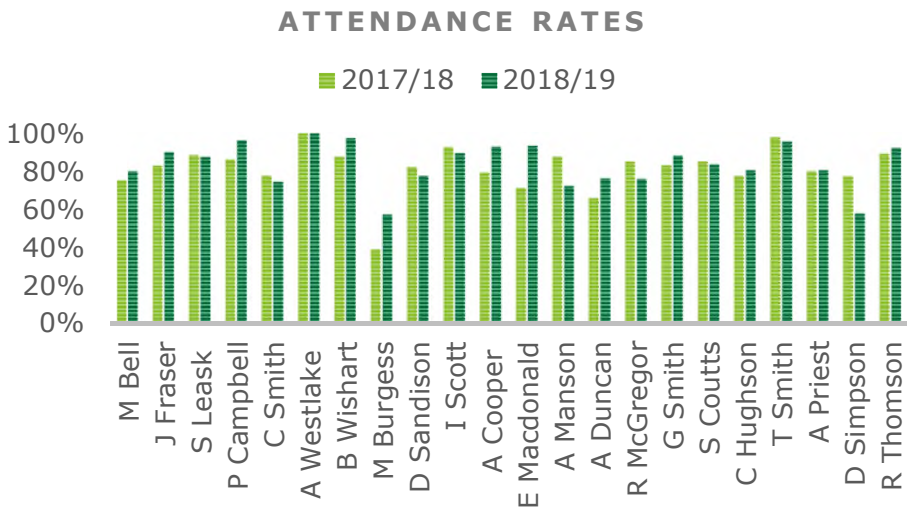
The Council does not have a structured approach to regular self-assessment. In 2018/19, only the Audit Committee was subject to self-assessment. The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance, which can help inform and guide the more structured mid-term review which is already carried out on a less regular basis. We are aware of a number of councils which have a dedicated Improvement Unit to perform self assessments and lead on improvement activity, informed by a structured self assessment and review programme - the Council should develop a similar programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

In addition to a review of governance arrangements, self-evaluations should be carried out at a corporate and service level. These reviews should be structured and regular, taking account of ongoing developments (for example, national and Best Value ('BV') reports). The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.



Attendance at Council meetings is commendably high, increasing from 81% in 2017/18 to 84% in 2018/19. However, the number of meetings has increased significantly (by 37%) in 2018/19 and the level of involvement from Members fluctuates significantly: some Members attend as few as 15 meetings, some as many as 67, with attendance rates ranging from 57% to 100%. While Members nominate themselves to Committees and thus are in charge of how many meetings they attend, the Council should work with Members to more evenly spread the workload of the Council and ensure appropriate scrutiny at all levels, as there is a risk that Members on a high number of Committees may not be able to provide the same level of attention to each.

The Council does not have a training plan at an individual Member, Committee, or Council level. No skills gap analysis has been carried out and appraisals are not conducted for Members to enable an informed training plan to be developed. The effectiveness of training that is provided is not regularly assessed - in 2018/19, no feedback was collated to assess the effectiveness of training. The Council needs to fundamentally overhaul its approach to training and adopt a formal, ongoing approach to development. The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them (specific to Committees/Members' needs), assess the effectiveness of all training provided and track and report attendance at training by Members.



# Governance and transparency (continued)

## Openness and transparency

### Openness and transparency

Taking an **open approach** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.



**Transparency** can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfied the good governance test.

**Openness and transparency** are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered the Council's approach to openness and transparency, how good the Council's information is; and its commitment to improving openness and transparency and concluded that the Council has a generally positive attitude towards openness and transparency and is positively disposed to improving in this area. While we are pleased to note planned improvements - such as the development of a new website where all Council information will be publicly available, other than by exception - we note that the Council has not carried out a review of how open and transparent it is, or sought the views of the wider community on its approach to openness and transparency. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these. Consideration of openness and transparency should also be built into the Council's staff survey.

While it is welcome that the Council is planning to make more information publicly available, it needs to ensure that the information is accessible to the reader. For example, while the Council has published its constitution and governance framework, it would not be clear to the average member of the public how the Council makes decisions as the documents published are detailed, technical operational documents and not summarised or explained for non-Council employees.



# Governance and transparency (continued)

## Openness and transparency (continued)

### Quality of information

The Council provides extensive and timely information to Members to enable them to take decisions. However, the Council should review whether the style of report is appropriate (it is important that Members are involved in any such review.) There is a high quantity of lengthy reports, with the covering reports often failing to identify the key matters being considered and the implications of decisions not being properly analysed and considered. While it is important for decisions to be made on a timely basis, it is important that the officers signing off the report are happy that it is clear but concise and would enable an independent person to make an informed decision, and not just signing off reports to meet deadlines.

As part of the review of reports, the Council should also consider how it minutes meetings: the Council should ensure that minutes are clear and have sufficient detail. We note that the Council has recently announced its intention to move towards webcasting of Council meetings. This, coupled with effective minute taking, should demonstrate how scrutiny has been effective and how decisions have been made.

In addition to making information available on its website and hosting public Council and Committee meetings, the Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. Across Scotland, a number of councils have either quarterly or annual newsletters outlining key decisions which have been taken in the period, how the Council is performing and how the public can get involved. The Council should consider adopting this approach.

### Commitment to improvement

The Council should ensure that any review of its governance framework specifically considers improvements which can be made to openness and transparency. It should be considering how it can become increasingly open and transparent on an ongoing basis, identifying improvements that will help stakeholders and the public to understand how decisions are made and how they can engage with the Council.

### Community engagement

The Council needs to improve its community engagement and consultation in relation to financial planning (for the annual budget, the MTFP and the LTFP). Further to our comments on the lack of community engagement in longer-term planning in 2017/18, we note that there is no evidence of deliberate, structured community engagement in the budget setting process. The Council should consider utilising technology or traditional surveys to improve community involvement in the financial planning process: a number of councils across Scotland now allow the public to 'create your own' budget online, with the findings from this considered when developing the budget.

Shetland-wide stakeholder surveys were used to inform the Partnership Plan. The Council should carry out regular stakeholder or citizen surveys, which will enable the Council to monitor changing expectations and respond to perceived or actual weaknesses in Council performance.

# Governance and transparency (continued)

## Openness and transparency (continued)

### Community engagement (continued)

As with a number of councils across Scotland, the Council is not meeting all of its obligations under the Community Empowerment Act. The Council is currently non compliant with the requirement to have locality plans for local areas at specific risk of inequalities. The Council is also at risk of being non compliant with participatory budgeting requirements from 2020 given its heavy reliance on the Transport Review enabling it to meet this requirement and no action yet taken to widen the Council's approach to participatory budgeting beyond public transport.

The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

While there is evidence of community consultation on large scale projects, no evidence of a structured approach to community engagement was provided, so it is unclear when the Council considers engagement should be carried out, what form it should take, how it is measured and monitored, and how its impact is reported both internally and externally. We note the consultations carried out for various large scale projects (such as on the Tertiary Review, Transport Review and Residential Care for Looked after Children) are inconsistent in approach and extent. This may be appropriate, but it is unclear how such decisions are reached given the lack of a structured approach.

The Council also needs to ensure it has plans in place to enable those not normally involved in Council decisions to become more involved. For example, we note a recent allocation of funding was subject to local voting, but only for those members of the public who were able to be in Lerwick between 11 - 3 on one date. The extent of engagement this enables is minimal, and the Council needs to do more to ensure it reaches a wider section of the community.

The Council needs to communicate to the public how consultation actually makes a difference, with disclosure on the website being a simple way of achieving this. The 'Consultation' page on the Council's website was last updated in January 2019 and contains no consultations, no information on past consultations or the outcome of them, or any other information which may be useful.

# Governance and transparency (continued)

## Following the public pound

### Following the public pound

The statutory requirements to comply with the Following the Public Pound Code (FtPP), in conjunction with the wider statutory duty to ensure BV, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them. The Council adopted the Code of Guidance on Funding External Bodies and Following the Public Pound in 1996. It has clear procedures and policies in place for adherence to the Code, which are aligned with the requirements laid out in the Code. The policy was last reviewed by internal audit in 2017/18.

Approximately £5m worth of grants were awarded to individuals and organisations in 2018/19. In 2017/18, internal audit raised concerns over the lack of standards or procedures in place to ensure that the Code is adhered to. Further issues were highlighted as complex accounting information provided for grants monitoring was being reviewed by staff who are not trained accountants. Concerns were also raised in relation to the terms and conditions listed on grant offers, with issues also highlighted regarding inappropriate recording and payment of grants.

Given the significant quantum of grants awarded in any given year, and given the issues highlighted by internal audit in 2017/18, the Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the problems identified have been remedied.

The Council's policy requires that summary reports on the support provided to organisations and the outcomes achieved through the support provided be presented to the relevant service committee. There has been no reporting in either of the years considered (2017/18 and 2018/19) which meets the requirements set out in the policy. Although service committees are responsible for approving grants when initially awarded, the lack of monitoring means that it is not possible for Members to ensure that Council funding given to external organisations represents value for money.

Specifically in relation to its partner organisations, we are satisfied that through the use of Council systems and services and joint Committees, the Council has sufficient oversight of money provided to the Shetland Islands Integration Joint Board, Zetland Transport Partnership and Orkney & Shetland Valuation Joint Board.



# Governance and transparency (continued)

## Deloitte view

### Deloitte view – Governance and transparency

We are pleased to note that the Council is in the process of developing delivery plans for the Shetland Partnership. The Council needs to set clear timeframes for when the delivery plans will be available and ensure that their development is properly prioritised and resourced. Looking to later in the year, when the Council is refreshing its Corporate Plan, it needs to ensure that its vision and priorities are aligned with the Partnership Plan.

In general, Shetland Islands Council has a good attitude to openness and transparency. However, it has not taken specific actions in the year to improve its approach to openness and transparency in line with good practice. The Council should review its approach to openness and transparency in 2019/20, developing an action plan in conjunction with Members and wider stakeholders, monitoring improvements in openness and transparency on an ongoing basis thereafter.

The lack of review of the Council's approach to openness and transparency evidences the Council's weaknesses in self assessment. In the year, only the Audit Committee underwent a self assessment. The Council should have annual self-assessments of governance arrangements, Committee and Council performance, and the Council should consider adopting self assessments of performance at both a corporate and directorate level. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

While attendance at Council and Committee meetings is high, the effectiveness of scrutiny is at risk of being weakened by the unequal workload on Councillors and the lack of any training plans for Members. The effectiveness of training that is provided is not regularly assessed, with no feedback received in 2018/19 on any of the training provided. The Council needs to adopt a formal, ongoing approach to development. The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them (specific to Committees/Members' needs), assess the effectiveness of all training provided and track and report attendance at training by Members.

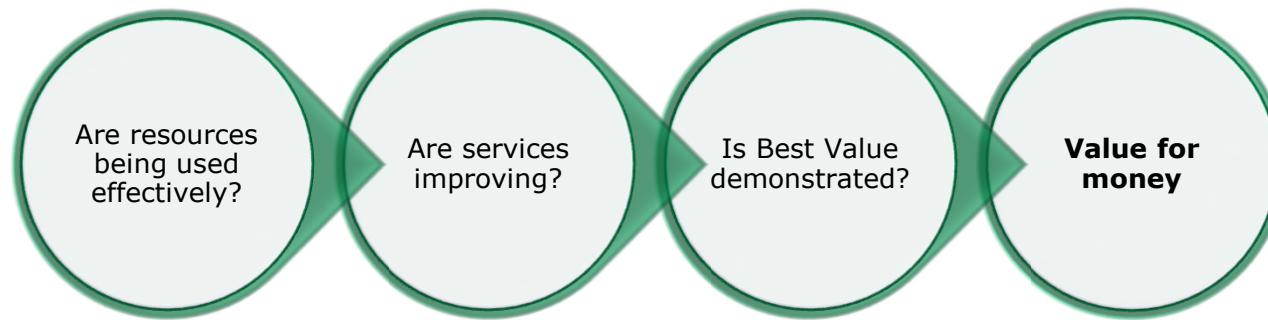
As with a number of councils across Scotland, the Council is not meeting all of its obligations under the Community Empowerment Act. The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

The Council adopted the FtPP in 1996. It has clear procedures and policies in place for adherence to the Code, which are aligned with the requirements laid out in the Code. The policy was last reviewed by internal audit in 2017/18. A number of issues were highlighted in this review, and we have identified a further issue where the Council's policy is not adhered to, with insufficient reporting to committees on the support provided and outcomes achieved. The Council should request that compliance with the Code be assessed by internal audit as a standing item each year until the Council has sufficient assurance that the issues raised have been addressed.

# Value for money

## Overview

**Value for money** is concerned with using resources effectively and continually improving services.



### Audit risks

Within our audit plan we identified a number of risk as follows:

- the Council does not appropriately prioritise areas of poor performance;
- the Council has not achieved value for money in progressing its Business Transformation programme; and
- the Council does not clearly report on its contribution towards the national outcomes.



# Value for money

## Performance management

### Performance management

The Council gathers performance information to monitor, track and improve service delivery to the community. The Shetland Partnership Plan and the Council Annual Performance Report are the main strategic tools which are used to plan for and report on the Council's performance.

The Council reports on indicators gathered from:

- Directorate and Service plans;
- Local Government Benchmarking Framework;
- Statutory Performance Indicators; and
- Shetland Partnership Plan.

We are pleased to note that the Council is currently developing a new Performance Framework as part of the Business Transformation Programme. The new Framework is designed to allow it to be used by partner organisations, progressing the Shetland Partnership Plan. A key element of the Framework is public reporting, with benchmarking to be used and featured in business cases, options appraisals and performance reports.

### Accuracy of reporting

From our review of information reported to service committees, we noted that the sickness absence information reported to the various service committees differs depending on the committee reported to, despite the sickness absence information being for the same period and covering all directorates within the Council. Sickness absence is not reported to committee for Development Services, despite Development Services having the second highest sickness absence level, above the Council average, and significantly above the historical annual average or absence levels at the same period in previous years. It is not clear why the information differs between reports and undermines the ability of Councillors to effectively monitor performance in this area. The Council needs to standardise what is reported to committees (i.e. if sickness absence is reported to one committee, it should be reported to all committees). Through Pentana, the Council should develop a suite of indicators that are locked down at month and quarter end and then used for all reporting to ensure consistency.

### Statutory performance indicators

The Accounts Commission places great emphasis on Councils' responsibility for public performance reporting. The Commission does not prescribe how Councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

Overall, we concluded that the Council's arrangement for publication are satisfactory. A summary of the Council's performance results compared with 2017/18 is set out on page 31 and overall, shows an improving position.

### Self assessment

We note that the Council does not carry out self-assessments for Directorates. However, the Council note that reflective practice is supported through meetings between staff and management, at team and directorate team meetings and at CMT. Consequently, there is no Council-wide 'Improvement Plan'. The Council note that improvement actions are identified in plans at a Council, Directorate, Service and individual officer level, with these monitored through ongoing interaction with staff, managers and elected members. However, the lack of a centralised Improvement Plan makes it difficult to monitor improvement across the Council as a whole and to identify areas where improvement is not progressing as planned.

In line with good practice, a clear and concise annual Improvement Plan should be prepared and reported to Council. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

BV reports regularly highlight that council's need to be aware of national and local perceptions of their performance. We reviewed the Council's 'Customer First' survey, carried out in November/December 2017. The usefulness of the stakeholder survey is undermined by the lack of any historical information or trend analysis, and the lack of targets, and the lack of linkage to Council priorities or performance measures. There has been no updated survey carried out in 2018/19 to identify if actions taken after the 2017/18 survey are yielding the desired results.

# Value for money (continued)

## Performance management (continued)

### Self assessment (continued)

We are pleased to note from the 2018/19 Q3 update report that some managers within the Council are discussing ways in which Customer First indicators could be added to service plans. We would encourage this approach to be adopted across the Council.

### Best Value

The BV framework follows a five year approach to auditing BV. 2018/19 represents year three of the BV audit plan. The Best Value Assurance Report (BVAR) report for Shetland Islands Council is planned for year five in the five-year programme (i.e. 2020/21).

The BV audit work in 2018/19 was integrated into our audit approach, including our work on the audit dimensions discussed throughout this report.

In line with a number of councils across Scotland, Shetland Islands Council should consider whether signing up to the Quality Scotland Excellence Framework could provide a basis and impetus for continuous and quicker improvement.

### Procurement

We have reviewed the most recent Procurement and Commercial Improvement Programme (PCIP) assessment for the Council, being from 2016/17. The Council have confirmed that the next assessment is scheduled for 2019/20. Procurement performance in 2016/17 was assessed as being 48%, in the 6th performance banding (of 12). However, the Council was commended for its upward trend in performance at that time. The Council should engage with Councils across Scotland to learn lessons from those who have consistently achieved the top banding.

### Major transformation projects

As discussed on page 9, the Council is progressing with its BTP. As part of this, the Council purchased SLAP in October 2018 and a decision to approve and progress the merger of Shetland College, Train Shetland and NAFC Marine Centre was made in December 2018. We have reviewed the business cases for each of these projects as part of our audit work and concluded as follows:

- **Purchase of SLAP** - The Full Business Case for the acquisition of SLAP identifies a rate of return for the acquisition of 7.14%, with the net present value of the acquisition being in excess of £7m. The acquisition of SLAP will reduce annual lease expenditure of the Council by over £1.2m. Appropriate due diligence was performed which did not identify any issues with the approach or methodology used in the Full Business Case. While the acquisition of SLAP itself is not transformative, it enables the Council to explore transformative actions and to identify alternative models of service delivery given that it has much more control over its property base.
- **College merger** - From our review of the Full Business Case for the College Merger, we concluded that the methodology and modelling used were appropriate, the assumptions were supportable and reasonable and the financial model was robust. The proposed merger identified savings of £2.44m per annum over the medium term (£12.2m over 5 years), offset by one-off costs of £0.87m and a financial guarantee for £4.4m. The Full Business Case includes detailed analysis of the impact the proposed merger would have on service delivery, outlining proposed changes to delivery models to improve the outcomes achieved for service users. The Full Business Case included consultation with key groups such as service providers and service users and was cognisant of the wider impact on the Shetland community.

The Full Business Cases produced for both the acquisition of SLAP and the proposed College Merger demonstrate clear financial savings which can be made, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved. The Council needs to carefully monitor progress against these actions to ensure that benefits are realised, and a post-implementation benefits realisation analysis should be performed by the Council to ensure any areas of good practice and lessons learned are appropriately used in future.

# Value for money (continued)

## Overview of Performance

### Local Government Benchmarking Framework

We have drawn on the Local Government Benchmarking Framework (LGBF) to make a high level assessment of the Council's performance, relative to all Scottish councils, in 2017/18 (the latest data available). The LGBF includes a number of indicators organised under common service areas.

The LGBF data was presented to the Council for consideration in 2018/19. Although the information is provided in full to the Council, the accompanying report lacked detail of which areas the Council considers to be 'priority' areas and narrative on which indicators are considered to be the most important and relevant for consideration by the Council. The report also did not outline the general performance of the Council - with each indicator presented separately and no high-level analysis or narrative, it is difficult to identify trends across the Council.

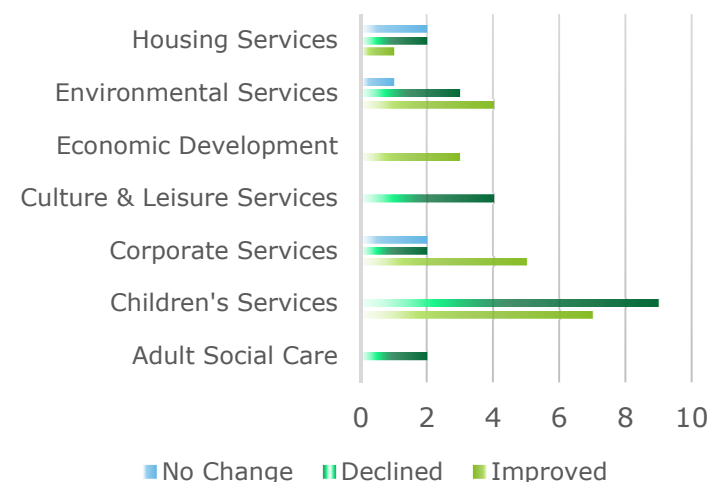
Further, in the appendices to the report, the information on 'future improvements' was incredibly high level and aspirational, and it is difficult to see how assurance could be gained from the narrative provided that performance will be improved in the coming year.

In 2017/18, Council service performance improved in 20 areas, declined in 22 areas, with no change identified in 5 areas. The cost of services was reduced in 10 areas, increased in 6 areas, and maintained in 3 areas.

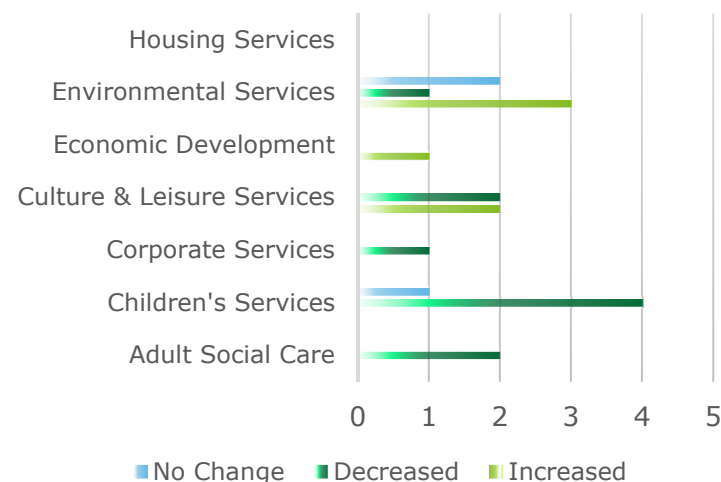
The main areas where spend was reduced are Children's Services, Adult Social Care and Culture & Leisure Services, with this having knock on impacts on service performance: all Adult Social Care and Culture & Leisure Services indicators declined, while 56% of Children's Service indicators declined. This drop in spend is per service user, and is due to increased demand for services in the year (particularly for residential care for looked after children and social care), not matched by a proportionate increase in resources, which has resulted in a decline in service performance indicators.

Although performance has declined locally, it is important to note that Shetland Islands Council performance is better than the Scottish average in 31 areas (worse in 16). Against similar councils, Shetland Islands Council performs better in 27 areas (worse in 20). However, this higher level of performance needs to be considered in the context of the higher spend in Shetland - Shetland Islands Council spends more than comparable councils in 14 areas (less in 5), and more than the national average in 13 areas (less in 6). In other words, the Council spends more than comparable councils in 74% of areas but performs better in 66%, and it spends more than the national average in 68% of areas but performs better in 57%.

### SERVICE INDICATORS



### COST INDICATORS

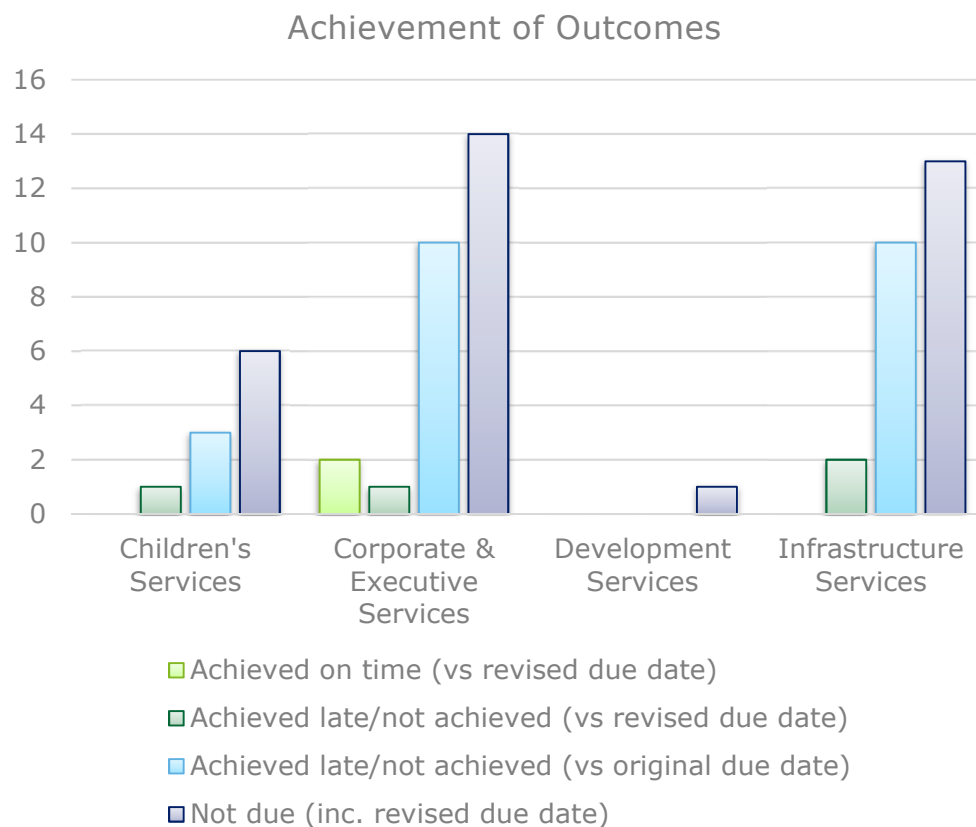


# Value for money (continued)

## Overview of Performance (continued)

### Shetland Partnership Plan

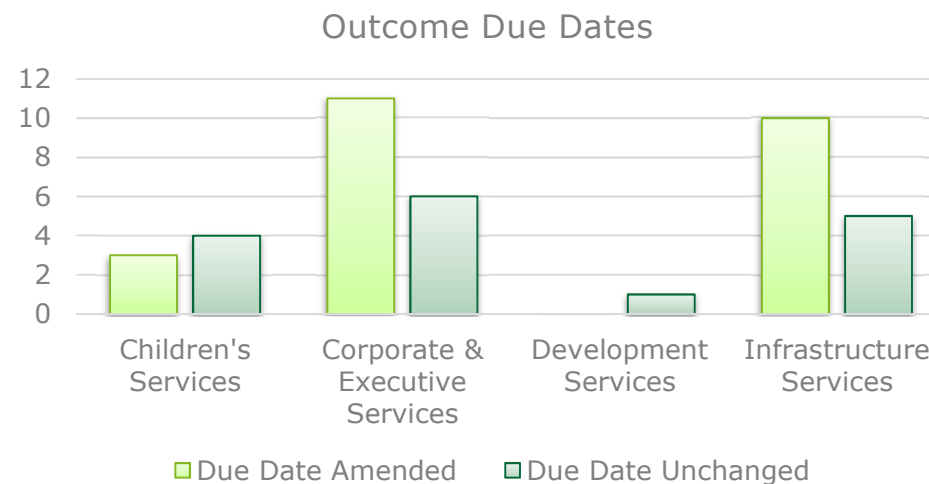
Performance against the outcomes in the Shetland Partnership Plan are reported to service committees on a quarterly basis. In Quarter 3 2018/19, 40 outcomes were reported against. The 'due dates' for the outcomes had been amended for 24 of these outcomes, with no narrative to explain why this was the case and why the original due date was not achieved.



Compared to original due dates, 23 outcomes were not achieved. None were achieved on time against the original due date. Against revised due dates, 2 were achieved on time, 4 were achieved late and 34 are not yet due.

Progress is measured in terms of percentage. However, there is no measurable target specified for any of the 40 outcomes reported against, so it is difficult to understand why progress is reported as, for example, 50% (rather than 30%, or 70%, etc.) given that it is not clear what is being actually measured and how this progress measure was calculated.

The narrative provided against the outcomes is severely lacking in any measurable data of performance against the outcome and specific actions to address underperformance. The information reported to the service committees is insufficient to enable councillors to properly monitor and scrutinise performance.



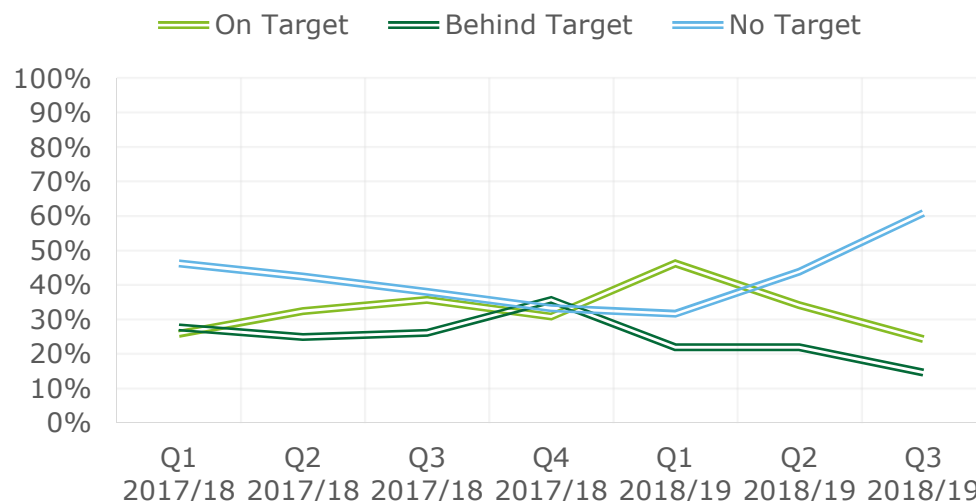
# Value for money (continued)

## Overview of Performance (continued)

### Service performance

Performance has improved, on average, from 2017/18 to 2018/19: from 33% of reported measures being on target to 35%. However, after steadily improving throughout 2017/18 and into Q1 of 2018/19, performance has dropped substantially in Q2 and Q3 of 2018/19, with the amount of targets achieved in Q3 2018/19 at 24%.

**PERFORMANCE TREND: 2017/18 - 2018/19**



In general, the usefulness of the performance information is limited by the large number of indicators where there is no target or where no information is provided: this has increased from 40% in 2017/18 to 46% in 2018/19. In Q3 2018/19, this rose sharply to 61%. This substantially undermines the ability of councillors to understand and scrutinise performance. Where there are no targets or where information is not provided, it is not explained in the narrative why this is the case and why this is appropriate.

It is difficult to monitor if performance is actually improving, or if targets are simply being met due to targets not being changed. The Council should report on an annual basis on the indicators it intends to monitor in the coming year (ensuring they cover the areas required by the Statutory Performance Indicators direction), the targets for each quarter (if available), and the performance for the corresponding period in the previous year. This will enable members to assure themselves that the Council is appropriately focused on continuous improvement.

There is no link between the indicators reported, the Council's priorities and outcomes for communities. The narrative provided alongside the performance indicators is high-level and does not enable an observer to understand specifically why performance has - or has not - met a target, whether that was within or outwith Council control, and what specifically will be done to address areas of underperformance.

### Homelessness

The Local Government Challenges & Performance Report 2019 noted that homelessness applications rose by 1% between 2016/17 and 2017/18 nationally. In Shetland, the increase was 11%. The length of time spent in temporary accommodation (455 days) is significantly above the national average (171 days). The level assessed by Shetland Islands Council as being intentionally homeless is above the national average, the amount assessed within 28 days is below the national average. This has knock on effects on outcomes: the percentage of homeless people for whom the Council did not know the outcome due to lost contact was above the national average.

The Council is in the bottom quartile of all social landlords in relation to key indicators such as tenant satisfaction, communication with tenants, tenant participation in decision-making, value for money of rent, days to complete repairs, and repairs completed right first time.

Shetland Islands Council needs to prepare a specific Improvement Plan to address the issues identified in relation to housing and homelessness and monitor improvement over 2019/20. The Scottish Housing Regular will continue to monitor progress in this area and we will maintain oversight through the Local Area Network.

# Value for money (continued)

## Integration of health and social care

### Health and social care integration

Financial planning in the IJB is not integrated, long term or outcome focused. This severely limits the ability of the IJB to change the way the system operates. The Council can work with its partners to improve this by following up on recommendations made in 2017/18 to treat the budget allocation as 'IJB money' rather than 'Council' and 'NHS' money. The development of an MTFP and LTFP are also necessary to help drive this change. While we note that a high-level MTFP has been prepared in 2018/19, this needs to be significantly improved in terms of robustness of the plan and the Council needs to work closely with the IJB in this. Currently, the MTFP simply quantifies the problem.

The Council should work with the NHS to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. The Council needs to make sure that it involves the IJB in the development of the Council workforce plan to ensure the IJB's needs are met.

The IJB needs to seriously consider if leadership are appropriately resourced and supported by enough personnel and other services (e.g. HR, Legal, Accountancy) to deliver the strategic change necessary. The Council needs to work with the IJB on this point, particularly given the potential issues of financial capacity highlighted on page 17. While staff may be 'assigned' to the IJB to provide these services, this is on top of their current roles and the IJB, NHS and Council need to critically evaluate whether this is appropriate and actually working in practice – if it is not, the IJB needs to be clear what is missing that would enable improved outcomes.

Cultural differences are identified as being a single, key issue undermining progress, as there are issues of trust and understanding which impede progress. It is incumbent upon Councillors who sit on the IJB to see themselves as 'the IJB' rather than the Council and for officers to make clear where they are blurring these roles. Only by having these issues pointed out will members and officers begin to instinctively understand over time and change behaviours.

The NHS, IJB and Council need to work together to clearly set out roles and responsibilities of each of the parties - in greater detail than currently set out in the Integration Scheme - ensuring consistency across the partner organisations and ensuring that delegation of responsibilities is carried out effectively.

There is a legal requirement for the effectiveness of the Integration Scheme to be reviewed by the fifth anniversary of its approval, which means the Council, NHS and IJB need to conduct such a review in 2019/20. We note that an "Options Appraisal" for the future of the IJB has been carried out in 2018/19, and this needs to be taken forward and used to inform any changes needed to the Integration Scheme.



# Value for money (continued)

## Deloitte view

### **Deloitte view – Value for money**

We are pleased to note that the Council is currently developing a new Performance Framework as part of the BTP, with a key element of the new framework being public reporting, with benchmarking to be used and featured in business cases, options appraisals and performance reports. Also of note is the Council's attitude to 'spend to save' activities on demand management projects. The investment in prevention and early intervention in Children's Services and Social Care is a positive example of the Council funding programmes of demand management and we encourage the Council to identify further areas where such action can be taken.

In line with good practice identified by Audit Scotland, we recommend that the Council prepare a clear and concise annual Improvement Plan to be reported to the Council. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

We have specifically reviewed the business cases for two key transformation projects in the year: the purchase of SLAP and the College Merger. The Full Business Cases demonstrate clear financial savings which can be made, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved. The Council needs to carefully monitor progress against these actions to ensure that benefits are realised.

From review of the LGBF, Council service performance improved in 20 areas, declined in 22 areas, with no change identified in 5 areas. The cost of services was reduced in 10 areas, increased in 6 areas, and maintained in 3 areas. The Council spends more than comparable councils in 74% of areas but performs better in 66%, and it spends more than the national average in 68% of areas but performs better in 57%. Shetland performs particularly poorly in homelessness. A specific Improvement Plan to address the issues identified in relation to housing and homelessness needs to be prepared,

From the Council's performance monitoring reports, it is difficult to fully assess performance, including performance against outcomes, given that a number have no targets, and others have targets that are changed with insufficient narrative provided to understand progress made to date and planned actions and timeframes. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focused on continuous improvement.

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. 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.

## Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Council has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>The Council appropriately assessed and planned for the potential impact of EU withdrawal. We have concluded that the Council is well prepared for EU Withdrawal.</p> <p><b>People and Skills</b> - The Council is communicating regularly with staff on the potential implications of EU Withdrawal. The Council is aware of the level of exposure its workforce has to EU Withdrawal and is taking clear steps to support staff who may be affected. The Council has clearly identified EU Withdrawal as a risk in its Corporate Risk Register. The Council is working closely with third and private sector organisations to assess workforce risks across Shetland.</p> <p><b>Finance</b> - The Council is aware of the extent of funding it receives from the EU, and the risk faced by third and private sector organisations from the potential loss of EU funding. These risks are reflected in the Council's Corporate Risk Register.</p> <p><b>Rules and Regulations</b> - The Council has identified products and services from the EU that are vital for the operation of the organisation and service delivery. Scenario planning has been carried out and detailed contingency plans are in place. The Council is working closely with its partners to ensure these risks are mitigated and contingency planning is ongoing and developing.</p>



## Other specific risks (continued)

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability (see pages 7 – 13) we have considered how the Council have reviewed the potential implications of the Scottish Government's Medium-Term Financial Strategy for its own finances, including long-term planning.	<p>The Council revised its MTFP in August 2018, with the Scottish Government's Medium-Term Financial Strategy being considered as a 'key factor' within that plan. The assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the Scottish Government MTFS.</p> <p>The Council is in the process of amending its performance reporting framework to better align with national indicators and to demonstrate contribution to outcomes, particularly in relation to the Shetland Partnership Plan.</p>
Care income, financial assessments and financial guardianship	We have reviewed the arrangement for financial assessment of those requiring care and assessed whether they were subject to a significant backlog.	No areas of risk identified from our audit work. The Council has confirmed that there is no backlog in the financial assessment of those requiring care and no Council officers act as financial guardians.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	<p>No specific risks of key supplier dependency have been identified. While Shetland Islands Council has a number of key suppliers, these are public bodies providing services to the Council and their functions would be assumed by another public body if they ceased to exist.</p> <p>We are satisfied that the relationship with ferry and air operators does not present a risk, with sufficient contingency planning in place and alternative options available to deliver services in the event of supplier failure.</p>
Openness and transparency	We have considered the Council's approach to openness and transparency as part of our audit work on governance and transparency (see pages 23 – 25).	The Council has a good attitude to openness and transparency. However, there is room for improvement and the Council needs to ensure its approach to openness and transparency keeps pace with public and regulatory expectations. The Council should review its approach to openness and transparency, considering wider expectations, developing an action plan in conjunction with wider stakeholders to ensure that the Council is always striving for more.

# Appendices



# 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 help the Council discharge their governance duties.

Our report includes the results of our work on the following:

- Financial sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

### 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.

This report has been prepared for the Council, 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.

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



for and on behalf of Deloitte LLP  
Glasgow

20 June 2019

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability</i>	<p>The Council needs to review its MTFP given the significant of the anticipated underestimation of the funding gap to 2023/24. The funding gap identified in the MTFP should be linked to planned savings from the BTP and SRP, demonstrating how the BTP and SRP will enable the Council to close the funding gap in the medium term.</p> <p>(See page 8 for details.)</p>	<p>The Council recognises the challenges it faces. We will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP in the autumn. Where possible, likely savings determined through the initial scoping of service redesign and business transformation activities will be built into the Council's planning assumptions.</p>	Executive Manager - Finance	31 March 2020	High
<i>Financial Sustainability</i>	<p>The Council needs to consider the resourcing of transformational change (including the officers responsible for transformation) as it moves from planning for change to implementing change.</p> <p>(See page 9 for details.)</p>	<p>The Council has recently allocated a budget to establish a Programme Management Office function within the Corporate Services directorate to facilitate progress of SRP and BTP projects. The PMO will use a mixture of secondments from existing Council teams and new appointments and graduate project officers on fixed term contracts to help address the capacity constraints the Council is facing in this area.</p>	Director - Corporate Services	31 March 2020	High
<i>Financial Sustainability</i>	<p>The Council needs to improve its approach to capital planning, through: identification of the current asset base; quantifying what the Council considers to be an affordable asset base; anticipated additional assets to be acquired in the medium to longer term to meet demographic and other changes; assets which the Council anticipates disposing; plans required to bridge this asset funding gap.</p> <p>(See page 11 for details.)</p>	<p>The Council presented its Property and Asset Management Strategy (PAMS) in June 2019 which set out future plans for the Council's property estate. Following feedback from elected members, an updated PAMS will be presented in September, and will align with the MTFP and LTFP and planned changes arising from service redesign and business transformation activities.</p>	<p>Executive Manager – Assets, Procurement &amp; Commissioning</p> <p>Executive Manager – Finance</p>	31 March 2021	High
<i>Financial Management</i>	<p>Financial monitoring reports should include information outlining amendments to the budget, why the amendments were necessary and why they were not foreseen when the budget was agreed.</p> <p>(See page 15 for details.)</p>	<p>The Council is keen to present financial information in an accessible and open way, not just to elected Members but the wider community. We welcome the opportunity to help improve the format and content of financial monitoring reports in order to enhance transparency and accountability.</p>	Executive Manager - Finance	31 December 2019	High

# Action plan (continued)

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Management</i>	<p>For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.</p> <p>(See page 17 for details.)</p>	<p>The Council welcomes the opportunity to improve transparency and accountability. An annual update report will be prepared by the end of the 2019/20 financial year.</p>	<p>Executive Manager – Assets, Procurement &amp; Commissioning</p> <p>Executive Manager – Finance</p>	31 March 2020	High
<i>Governance &amp; Transparency</i>	<p>The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them, assess the effectiveness of all training provided and track and report attendance at training by Members.</p> <p>(See page 22 for details.)</p>	<p>Attendance at all development events is logged. Feedback will now be requested from formal and informal Member development events. Members are currently participating in the Improvement Service CPD Framework. PDPs and a refreshed Member Development Programme will be prepared once completed.</p> <p>Training need for Members formed part of the Committee and Governance review reported to Members on 11 June 2019. A more in depth analysis leading to a training plan is underway.</p>	Executive Manager – Executive Services	31 March 2020	High
<i>Governance &amp; Transparency</i>	<p>The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.</p> <p>The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.</p> <p>(See page 22 for details.)</p>	<p>The Council considered an initial Governance review report as part of the review of its Code of Corporate Governance in June 2019. An updated report is promised for September 2019, and annually thereafter.</p>	Executive Manager – Governance & Law	31 December 2019	High



# Action plan (continued)

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance &amp; Transparency</i>	As with a number of councils across Scotland, the Council is not meeting its obligations under the Community Empowerment Act. The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.  (See page 25 for details.)	This work will be co-ordinated in tandem with work to identify skills gaps (as recommended on page 41) and be incorporated into a training programme in partnership with Workforce Development.  The delivery of learning sets in key policy areas, including the Community Empowerment Act, is an action contained within the Shetland Community Learning and Development Plan.  Work to develop locality plans, as required under the Act, is in hand.	Executive Manager – Executive Services  Executive Manager – Community Planning & Development	31 March 2020	High
	Performance information across the Council (including the Partnership Plan) needs to be improved with all indicators having targets or narrative to explain performance. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the performance for the corresponding period in the previous year.  Changes to target dates should be clearly explained and challenged by Councillors. If progress is reported on a % basis, measurable targets should be included and reported against.  The indicators reported should be linked to the Council's priorities and outcomes for communities. The narrative provided alongside performance indicators needs to be more detailed to enable an observer to understand specifically why performance has or has not met target, whether that was within or outwith Council control, and what specifically will be done to address areas of underperformance.  (See page 32 for details.)	A performance Framework for Shetland has been developed and is being presented to the Council, the NHS and IJB for approval; in June/July 2019.  The Framework incorporates the commissioning cycle and is designed to be used for joint commissioning, performance management and reporting for the Shetland Partnership. The Framework will be fully implemented by 31 March 2020 with 2019/20 a transition year during which time the Framework will continue to evolve informed by practice.	Director – Corporate Services	31 March 2020	High

# Action plan (continued)

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability</i>	<p>In its budget, the Council should identify savings which will need be achieved in the year, allocated appropriately across Directorates. These savings should reduce the overall Directorate budget (as opposed to being separate 'savings lines' in the budget) and be separately disclosed in the narrative to enable monitoring of progress against savings in the year.</p> <p>(See page 7 for details.)</p>	The Council opted against using 'savings lines' to enable balanced budgets to be set in 2019/20. The Council will include all efficiencies or savings targets expected to be realised through service redesign or business transformation activities in the next budget-setting cycle.	Executive Manager - Finance	31 March 2020	Medium
<i>Financial Sustainability</i>	<p>The Council's MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the Council's financial planning.</p> <p>(See page 37 for details.)</p>	The Council will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP to Council in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in the the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.	Executive Manager - Finance	30 September 2019	Medium
<i>Financial Sustainability</i>	<p>The Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term.</p> <p>(See page 10 for details.)</p>	The Council is keen to present financial information in an accessible and open way. The Council acknowledges that reports requiring decisions could be clearer in this area, and will seek to set out the likely financial implications on a short, medium and longer-term basis in the relevant section.	Executive Manager - Finance	31 December 2019	Medium
<i>Financial Management</i>	<p>Financial monitoring reports should present information on actual expenditure in each quarter, in addition to the forecast outturn as at the end of each quarter. Narrative in the reports should provide explanations for why variances have occurred, not just what they consist of. The finance function needs to become more involved in forecasting to understand and scrutinise how the forecast expenditure will be incurred and whether this is realistic.</p> <p>(See page 15 for details.)</p>	The Council is keen to present financial information in an accessible and open way. During committee, elected members have the opportunity to ask questions about performance in the quarter, however the Council acknowledges that further insight in the narrative of reports could be useful.	Executive Manager - Finance	31 December 2019	Medium

# Action plan (continued)

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Management</i>	<p>The Council's budget should include analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan. The budget should also include information of the outcomes the Council expects to be progressed (and to what extent) by the budget.</p> <p>(See page 17 for details.)</p>	<p>The Council is keen to present financial information in an accessible and open way, not just to elected members but the wider community. The Council will aim to address this recommendation during the next budget cycle as it sets the 2020/21 budget.</p>	Executive Manager – Finance	31 March 2020	Medium
<i>Financial Management</i>	<p>The Council should carry out a review of the finance structure, to assess whether changes in the finance structure and model could result in improvements in financial management.</p> <p>(See page 17 for details.)</p>	<p>The Council will consider the feasibility and advantages and disadvantages of moving to a different structure for the finance team.</p>	Executive Manager - Finance	31 March 2020	Medium
<i>Governance &amp; Transparency</i>	<p>The Council should set clear 'due dates' for when delivery plans for the Shetland Partnership Plan will be available and outline how progress will be monitored once these are available.</p> <p>(See page 32 for details.)</p>	<p>The Delivery Plans have been drafted and will be presented for approval by the Council on 2 July 2019.</p> <p>The new Performance Framework for Shetland will be used to monitor and report on progress.</p>	Chief Executive	31 March 2020	Medium
<i>Governance &amp; Transparency</i>	<p>The Council should carry out a review of how open and transparent it is, seeking the views of the wider community. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these and through its own staff survey.</p> <p>(See page 23 for details.)</p>	<p>One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development.</p> <p>HR are leading on the continuing development of action plans to take forward issues from previous Viewpoint Surveys and will repeat the survey to ensure comparisons over time.</p>	Director – Corporate Services	31 March 2021	Medium



# Action plan (continued)

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance & Transparency	<p>The Council should review whether the style of reports used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions. Officers signing off the report should challenge the content before submitting it for reporting.</p> <p>(See page 24 for details.)</p>	<p>A review of report writing has been completed resulting in training being delivered in June 2019 which will inform further work developing Council Guidance for Report Writing and Presenting.</p>	Executive Manager – Human Resources	31 December 2019	Medium
			Executive Manager – Governance & Law		
Governance & Transparency	<p>The Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. The Council should consider publishing a quarterly or annual newsletter, sent to all households, outlining key decisions, Council performance and how the public can engage with the Council.</p>	<p>The Council is committed to enabling public scrutiny through virtual attendance by audio or webcasting meetings. This is an ambition which is linked to the recent decision in June 2019 to move the Council debating chamber to a new location at St Rangan's Church.</p> <p>One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development.</p>	Director – Corporate Services	31 March 2021	Medium
	<p>The Council should also consider utilising technology or traditional surveys to improve community involvement in the financial planning process: a number of councils across Scotland now allow the public to 'create your own' budget online, with the findings from this considered when developing the budget.</p>				
	<p>The Council should carry out regular stakeholder or citizen surveys, which will enable the Council to monitor changing expectations and respond to perceived or actual weaknesses. When reporting on stakeholder surveys, the Council should include historical information or trend analysis, targets and clear linkage to Council priorities or performance measures.</p> <p>(See page 25 for details.)</p>				

# Action plan (continued)

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance &amp; Transparency</i>	<p>The Council's should provide summary reports on the external support provided to organisations and the outcomes achieved through that support to the relevant service committee on an annual basis. The Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the Council is complying with the Code.</p> <p>(See page 26 for details.)</p>	<p>Reports will be presented to Development Committee and Policy and Resources Committee.</p> <p>Issues of procurement and Best Value form part of the 2019/20 Internal Audit Plan and the Council will discuss with Internal Audit whether the provision of support to external organisations can form part of these audits.</p>	<p>Director – Development</p> <p>Director – Corporate Services</p>	31 March 2020	Medium
<i>Value for Money</i>	<p>The Council should review LGBF information against what it considers to be 'priority' areas and include narrative on which indicators are considered to be the most important and relevant by the Council. The report should outline the general performance of the Council and include trend analysis, including specific narrative on how the Council plans to address areas of poor performance or whether it accepts poor performance in specific areas.</p> <p>(See page 31 for details.)</p>	<p>LGBF information is considered and reports are prepared for discussion at committee. LGBF will also be discussed by CMT going forward to ensure key issues identified are prioritised and built into work programmes.</p>	Director – Corporate Services	31 March 2020	Medium
<i>Financial Sustainability</i>	<p>The Council's Annual Investment Plan should cover what level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, how the level and use of reserves will be monitored and remedial actions which will be taken if reserves fall below a certain level or are not used appropriately.</p> <p>On an annual basis, the Council needs to consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable.</p> <p>(See page 7 for details.)</p>	<p>The Council presented its 2019/20 Annual Investment and Treasury Strategy to committee in March 2019. The Council has been transitioning to a revised investment strategy since January 2019. Once complete, the Annual Investment and Treasury Strategy will be reviewed to ensure it addresses the points raised in this recommendation and to reflect best practice.</p>	Executive Manager - Finance	31 March 2020	Low

# Action plan (continued)

## Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and are pleased to note that 6 of the total 16 recommendations made have been fully implemented (2 recommendations are not yet due). The following recommendations are due and have either not been implemented or are only partially implemented. We will continue to monitor these as part of our audit work and provide an update in our Annual Report to the Committee in September 2019.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Sustainability	Additional work needs to be done to determine the feasibility of the Council savings target of 3.4% across the board and how these savings will be delivered. Business Transformation and Service Redesign projects need to include clear targets and milestones against which to measure performance. In addition, progress on these projects and against savings targets in general should be clearly reported to Members as part of the quarterly monitoring reports.	Management has confirmed the Business Transformation and Service Redesign programmes will continue to be reported regularly to monitor and measure performance. Members had been asked where focus and priorities should be in the medium term and management will continue to work with members to deliver these projects.	Executive Manager – Finance	31/3/19	High	<p><i>Partially implemented:</i> This will be followed up as part of our updated recommendation on page 40.</p> <p><b>Updated management response:</b> The Council has not applied an 'across the board' savings target in 2019/20, instead identifying Directorate-specific targets and applying budget changes accordingly. The Council intends to track progress against milestones set in the Business Transformation Programme and Service Redesign projects under a refreshed Performance and Management Reporting Framework.</p>
Value for Money	The Council should consider its priority areas compared with its areas of poor performance in the LGBF and compare what is being carried out locally with what is being done at other Councils which sit at the higher end of the scale. The Council has far greater resources available to it than other Councils nationally, and should have the ability to carry out the necessary changes to improve performance in the areas which are historically poor performing.	LGBF data is reported to the Council and functional Committees. One of the priority areas in the Service Redesign Programme is the consideration of "outliers" where the Council's LGBF data is at odds with similar Council's data this includes fully understanding the data and whether the service outcomes being delivered explain the difference in Shetland's data.	Director – Corporate Services	31/3/19	High	<p><i>Partially implemented:</i> This will be followed up as part of our updated recommendation on page 46.</p> <p><b>Updated management response:</b> The latest LGBF performance information (considering 2017/18 performance) was reported to the relevant service committees in March 2019. The Council intends to use this data to inform service development and redesign projects.</p>

# Action plan (continued)

## Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Governance & Transparency	<p>There is a need to improve integration of the IJB budget, rather than viewing it as two separate budgets from the Council and NHS. Steps also need to be taken to close the funding gap at the IJB.</p> <p>Given the lessons learned in the previous number of years, the Council (in conjunction with the NHS) should consider reviewing the Integration Scheme to ensure it is fit for purpose.</p> <p>Separately, the Council also needs to consider whether its internal mechanisms for identifying disputes at an early stage and implementing appropriate remedies are sufficient. We have also found that there is scope for the governance arrangements between the Council and IJB to be improved to ensure that the respective roles and responsibilities are clear.</p>	<p>Work has commenced on a self-evaluation of the IJB's governance framework and production of a Code of Corporate Governance. This evaluation will consider the recommendations made, including the need for a review of the Integration Scheme and its supporting governance and reporting arrangements.</p>	Executive Manager – Governance and Law	31/3/19	High	<p><i>Partially implemented:</i> An initial review of governance and the Code of Corporate Governance was presented to the Council in June 2019.</p> <p><b>Updated management response:</b> The Council will be involved in the self-evaluation of the IJB's governance framework, which is expected to be completed by mid 2019/20. During this process, the Council will work with the IJB and NHS to consider the appropriateness of the Integration Scheme, practical steps which can be taken to develop an integrated approach to the IJB budget and the mechanisms in place in the Integration Scheme for dispute resolution.</p> <p><b>Updated target date:</b> 27/11/2019</p>
Financial Management	<p>The Council should adopt a priority-based approach to budget setting, whereby resources are focused on the Council's priority areas. Applying a 4.5% savings target across the board (a 'salami slice' approach) is difficult to put into practice and not achievable in the long term, is vague in how savings will actually be achieved and does not protect priority areas.</p> <p>The Council should carry out self-evaluation on completion of projects, to confirm whether the project achieved its stated aims, delivered value for money, and how it performed against budget (in terms of cost and time).</p> <p>As highlighted in 'Best Value' audits conducted at other councils, the Council needs to demonstrate how its actions actually make a difference to the lives of residents - the Council should ensure such a section is included on any post-completion evaluation of projects.</p>	<p>Management recognise the difficulty with the 'salami slice' approach and promotes that a more selective approach in line with Council priorities is the way forward. Evaluation on completion of projects is an integral part of the Building Better Business Cases methodology being applied to the Service Redesign programme.</p>	Director – Corporate Services	31/3/19	High	<p><i>Partially implemented:</i> This will be followed up as part of our updated recommendation on page 43.</p> <p><b>Updated management response:</b> Specific savings targets were included in the 2018/19 budget but none were identified in 2019/20. The Council accepts for 2020/21 that the savings targets on a Directorate level should be disclosed in the budget. The Council accepts the need to better align the budgeted expenditure to anticipated outcomes and will work towards this in 2019/20. The Council will carry out self-evaluation on completion of Business Transformation and Service Redesign projects. None were fully completed in 2018/19 and therefore no self-evaluations were carried out.</p>

# Action plan (continued)

## Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Management	The Council should reconsider its reporting calendar for reporting to Committee and Council, narrowing the gap between the time the monitoring reports are prepared and when they are presented to Members. We also recommend that the Council consider reporting on a more risk-based approach, with higher risk areas being reported more regularly and lower risk areas less frequently.	Work is due to commence on the reporting calendar for 2019/20. This will take account of the recommendations made in relation to performance and financial reporting timescales, alongside the needs of other business and reporting requirements and timescales.	Director – Corporate Services	31/3/19	Medium	<p><i>Partially implemented:</i> This will be followed up as part of our updated recommendation on governance arrangements on page 41.</p> <p><b>Updated management response:</b> The Council reviewed its reporting calendar for 2019/20, reducing the number of meetings. Further improvements to performance reporting will be addressed through the Performance and Management Reporting Framework.</p> <p><b>Updated target date:</b> 31/3/2020</p>
Governance & Transparency	As the Council is currently refreshing the Council Plan, we recommend that it is made clear within the Council Plan how the strategic priorities and plans of the Council align with and help achieve the priorities in the Partnership Plan. Further, it is important that comprehensive delivery plans are developed in the near future to ensure that the aims of the Partnership Plan are achieved. These delivery plans need to include measurable milestones to allow monitoring of performance.	The Shetland Partnership is commencing the development of delivery plans. The Partnership is also developing the governance structure to ensure the plans are monitored against the milestones for changing individual and community outcomes. The Council's Corporate Plan halfway review is being reported to the Council in September. Directorate Performance reports now refer to both the Corporate Plan performance and the Directorate's links to the partnership plan. This will be made clearer in the revised Directorate plans developed as part of the budget preparation process between September 2018-February 2019.	Director – Corporate Services	31/3/19	Medium	<p><i>Not implemented:</i> This will be followed up as part of our updated recommendation on page 44.</p> <p><b>Updated management response:</b> The Council is working with the Shetland Partnership to develop comprehensive delivery plans, using the same format as the Shetland Partnership Plan. It is intended that progress reports will be publicly available and made readily accessible to the community.</p>

# Action plan (continued)

## Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Governance & Transparency	The Council should consider rationalising its Committee structure to ensure that there are enough Committees to provide effective governance and scrutiny, but no more than that as additional Committees require additional Member and management time and detract from time which can be spent elsewhere. As part of this rationalisation, the Council should consider if the responsibilities of any Committees can be merged to reduce the number of Committees whilst maintaining the overall responsibilities, given that this will reduce the administrative time in preparing papers for and attending differing Committees without the loss of any scrutiny.	Work has commenced on a self-evaluation of the Council's governance framework. This evaluation will consider the recommendations made, recognising the need to reduce Member and management time at meetings, but will balance this with the overall need to ensure the decision-making framework supports sound and effective corporate governance.	Executive Manager – Governance and Law	31/3/19	Medium	<p><i>Not implemented.</i></p> <p><b>Updated management response:</b></p> <p>It was agreed with Members that this would form part of its annual Governance and Mid-Term Review. This did not accept the need to decrease the number of Committees but recognised that a reduction in number is anticipated as a result of the externalisation of responsibility for the provision of a College and Tertiary Education Services committee. The Council began a self-evaluation of its governance framework in March 2019. This specifically considered the recommendations made in the external audit action plan. The Council is committed to:</p> <ol style="list-style-type: none"> <li>1) a review of the role and remit of the Policy and Resources committee, <i>and</i></li> <li>2) undertake a further review of its constitution to deal with changes which emerge from the current review of ward boundaries.</li> </ol> <p><b>Updated target dates:</b></p> <ol style="list-style-type: none"> <li>1) 27/11/2019</li> <li>2) 31/3/2022</li> </ol>
Governance & Transparency	Performance monitoring reports should give more qualitative descriptions, which highlight and draw out what the challenges are. Further, although performance reports are generally sufficiently detailed, they should include comparative information by benchmarking to other Councils.	Benchmarking data is already reported as part of Performance reports- APSE reports, LGBF, audit reports. Performance Management is a key strand in the Business Transformation Programme and this issues will be picked up by targeted work during the next 6 months.	Director – Corporate Services	31/3/19	Medium	<p><i>Partially implemented:</i> This will be followed up as part of our updated recommendation on performance information on page 42.</p> <p><b>Updated management response:</b></p> <p>The Council has addressed this recommendation through a revised performance management framework, being developed through the Performance Management and Reporting workstream of the Business Transformation Programme. A new Draft Performance Framework has been developed. Performance monitoring reports in 2019/20 will be based on the revised framework.</p>



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# Contents

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## Sharing our research, informed perspective and best practice

Introduction	3
Keeping pace?: Government's technology transformation	4
Best practice case studies	8
Deloitte perspective	13
Effective Finance Business Partnering	14

# Introduction

## Sharing our research, informed perspective and best practice

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector. In particular, we have included the following within this report:

### **1. Keeping pace? Government’s technology transformation – Research** (pages 4-7)

Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

### **2. Best practice case studies** (page 8-12)

We have provided some case study data where Deloitte have been involved in transformational work with Councils in England.

### **3. Deloitte Perspective** (page 13)

We have shared our perspectives and insights which are informed through our daily engagement with companies large and small, across all industries and in the private and public section.

### **4. Effective finance business partnership** (pages 14-16)

In an increasingly complex business environment the Finance function is now tasked with delivering decision support and strategy advice, moving away from low value transactional activities. By taking advantage of improved data availability, smarter tools and skilled resource, Finance now has the opportunity to transform to meet business needs.

# Keeping Pace?

## Government's technology transformation

Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

Area	Survey results	Action
Role of technology in government	<p>Respondents were asked which technologies have the most potential to impact on their department and on service delivery. Transformation of existing IT (88 per cent), cyber security (81 per cent) and data analytics (73 per cent) were the top three for greatest effect on the department. For service delivery, online interaction with citizens and cyber security were joint first (72 per cent), followed by transformation of existing IT (63 per cent) and mobile technology (60 per cent).</p> <p>On the other hand, digital currencies, blockchain, Internet of things and augmented reality are viewed as the least likely to impact either department operations or service delivery. These new technologies may have the power to revolutionise how we do things, however our survey suggests that while IT professionals in the public sector are aware of them, they perceive them to be well down the list of priorities.</p> <p>But is there a need for the public sector to be at the 'leading edge' or at least be 'faster followers'? Transforming existing IT, the clear priority for survey respondents, and a focus of existing investment is arguably more likely to generate service improvements for citizens and drive savings internally.</p> <p>Equally the use of advanced data analytics to drive better insights for example, is now well established and delivering real benefits for many public sector organisations.</p>	<p>It will be important of course for public sector CIOs to keep a "watching brief" on new technology. Technology that was new one year can become mainstream the next as functionality matures and the price point reduces.</p>

# Keeping Pace? (continued)

## Government's technology transformation (continued)

Area	Survey results	Action
Adoption of technology	<p>When asked which technologies they had explored for adoption, respondents highlighted those which might be considered more 'mainstream': transformation of IT (78 per cent), cyber security (64 per cent), cloud computing (59 per cent), mobile technology (56 per cent) and data analytics (54 per cent).</p> <p>Interestingly, while 72 per cent felt that online interaction with citizens had potential for the greatest impact on service delivery, only 46 per cent have explored the area for adoption.</p> <p>It's a well-worn stereotype that people working within the public sector believe they are behind the private sector in many areas. Our survey backs up this perception in relation to the adoption of new technologies; whilst 35 per cent felt they were behind others in the public sector, 64 per cent felt they were behind private sector organisations.</p> <p>Barriers highlighted include lack of budget (82 per cent), perceived cost (74 per cent) and 'fear of failure' culture (42 per cent).</p>	<p>The key lessons from our experience that help accelerate technology adoption:</p> <ul style="list-style-type: none"> <li>• Develop a coherent business case that clearly describes the benefits from the investment. This can help achieve buy-in and ensure the project is appropriately prioritised.</li> <li>• Have a clear Digital Strategy that supports the delivery of the business strategy: leadership and direction are at the core of driving successful technology adoption.</li> <li>• Involve citizens and service users in the design and delivery of new technology. This is critical for realising benefits and delivering 'fit for purpose' solutions.</li> <li>• Work closely with procurement teams to encourage technology innovation and accelerate the procurement process.</li> </ul>
Cyber	<p>The survey was conducted approximately one month after one of the biggest cyber-attacks ever within the UK public sector with the WannaCry attack on the NHS.</p> <p>The survey presents a conflicting message in the response to questions of cyber security.</p> <p>When asked which technology developments have the greatest potential to impact on the department and service delivery, cyber security was flagged by 81 per cent and 71 per cent respectively. This shows a significant realisation of the real and present threat and potential for impact.</p> <p>However almost half (44 per cent) are not sure or do not have confidence in their organisation's ability to withstand a cyber-attack. Interestingly the more senior civil servants are, the more likely they are to express confidence. This could be due to the senior group having more visibility of what the department is doing organisation-wide to reduce the risk of cyber-attack, or it could be down to this group having less awareness of the risks and exposure that exists.</p> <p>The survey showed that 56 per cent were confident which could be attributed to an increased awareness amongst users, strengthening of cyber security policy across government and more stringent compliance requirements e.g. GDPR and NIS Directive.</p>	<p>It is clear that the public sector understands the importance of strong and robust cyber security technology.</p> <p>We would encourage organisations to adopt a holistic approach to cyber security including people, processes and technology, and use the clear interest in cyber to promote awareness amongst staff.</p>

## Keeping Pace? (continued)

### Government's technology transformation (continued)

Area	Survey results	Action
Skills and training	<p><b>Skills</b> Digital skills gaps provide a barrier to adoption according to 68 per cent of respondents. For many CIOs, figuring out the answer as to where to invest in skills can be challenging. The IT industry is constantly morphing with skills that were readily available a month ago being in short supply today. There is a clear move within the public sector towards user-centred design, Agile and data analytics, and it is perhaps not surprising that these figure large in terms of skills gaps in the survey.</p> <p>In our experience an added complication is the disparity in salaries between IT staff in the public and private sector. There is a fear factor of training people up only for them to get a better paid job elsewhere.</p> <p>Beyond the IT team, digital skills for the entire workforce need to be considered and addressed. One respondent suggested that there is a need for a standardised set of digital skills for all staff while another pointed to the need for more structured programmes to support upskilling.</p> <p>Investment in skills, for both the IT team and wider workforce, needs to be linked to the organisation's IT Strategy. Once an organisation has established what it wants to achieve, it can then establish a plan, including the volume and type of skills required. This will typically be a mix of in-house and outsourced resource dependent upon the nature of the project. Many public sector clients we work with are training staff up as scrum masters and in Agile more generally due to the volume of projects using this approach.</p> <p><b>Training</b> 'On the job' training continues to be the most important means through which civil servants acquire the digital skills they need to perform their job effectively (64 per cent).</p> <p>Given the pervasiveness of technology in the workplace and at home, a potential working assumption is that all staff have, or will acquire on the job, the digital skills they need. This a potentially dangerous assumption. There are still many people within the workplace who are uncomfortable with technology. If they have not been given the right support and training, the risk is that they will become less effective in the workplace and the benefits of the organisation's investment in technology will not be fully realised.</p>	<ul style="list-style-type: none"> <li>• Involve HR professionals in skills analysis, including the digital skills required for the entire workforce as well as the more specific skills for the IT team. The principles behind training needs analysis are still as relevant as they ever were: identifying people's current skill levels and any gaps is crucial to IT benefits delivery.</li> <li>• Embed a structured training programme based on the skills analysis.</li> <li>• Consider partnerships with universities, local employers and trusted suppliers. Some of the skills needed in the public sector can be accessed in small bites. For example, skills necessary with particular new technologies do not require long-term continuity of resource. External resources can deliver pace, capability and, with larger suppliers, an element of risk transfer that justifies the higher cost in the short and medium term.</li> <li>• In-house academies and training programmes can be used to upskill the existing workforce. Well-designed programmes can have a big impact on culture and levels of buy-in. Delivering programmes or partial programmes via e-learning will be time efficient and help to keep skills up-to-date</li> </ul>

# Best practice case studies

Our team have worked with an English Council to support it through its transformation programme. The following page gives a high level view of the full transformation programme and the activities undertaken as well as the key learning on its success.

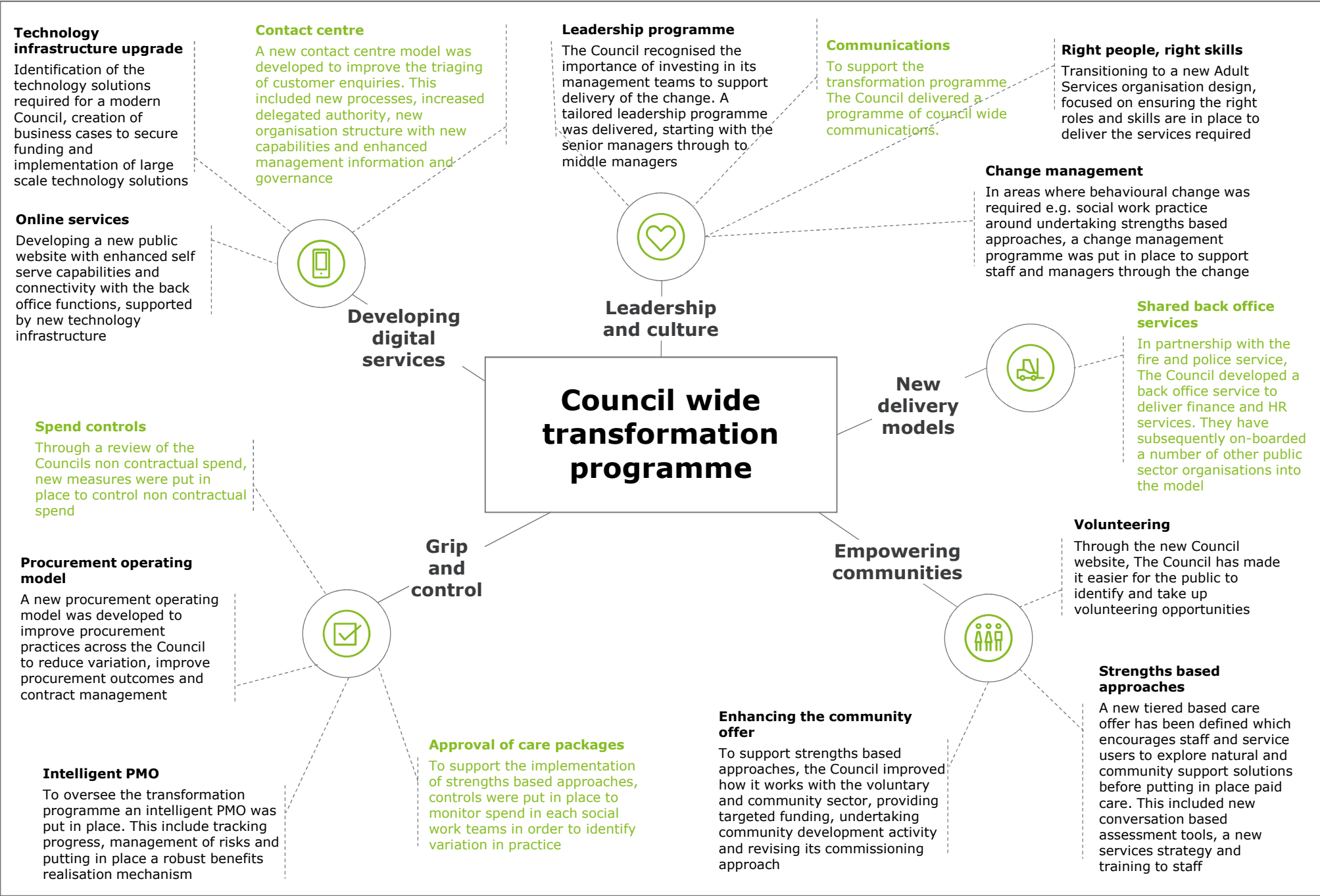
The subsequent pages then give further detail on specific examples of how they have applied demand management to transform services, including:

- **New Adult Services front door** – this increased contact centre capabilities and resolution at the first point of contact.
- **Digital services** – this enhanced online self service and automated reporting capabilities and improved digital infrastructure and digital capacity and capability.

We have also been involved in work with another English Council , in helping them achieve significant savings targets. We have set out on pages 8 and 12 two specific case studies that formed part of this work and the outcomes achieved:

- **Re-defining the care offer within its Social Care service** - this included planning and delivering targeted reviews of care packages, re-defining the care offer and rolling out strength based approaches as well as a new contact model.
- **Procurement and contract management** – here we created a whole view of 3<sup>rd</sup> party spend, adopted a category approach to prioritise focus and addressing spend errors, policy compliance contract control and re-negotiation of contracts. We then developed a procurement service operating model to improve capabilities and model to provide enhanced procurement support council wide.

# Best practice case studies (continued)





# Best practice case studies (continued)

## Council– New Adult Services front door

### Overview

In 2015, an English Council embarked on a £100m efficiency programme. Adult Social Care directorate was expected to contribute £43.1m to this target, approximately 15% of their operating budget. This is in the context of an ageing population with increasing social care needs, workforce pressures and a complex provider marketplace.

### The challenge

To improve demand management at the 'front door' in order to reduce pressures on front line operational teams through an enhanced contact centre function and a new digital service.

### What we did

We set up a project team that combined experienced operating model practitioners from Deloitte with Adult Services staff to bring deep operational expertise:

- As part of a department wide operating model the team defined a channel strategy that described how Adult Services would interact with customers and professionals.
- We worked with the leadership team to agree an agile approach to developing a new contact and assessment team to shift operational activity to the phone channel.
- Starting with a high level design of the contact centre, the team worked through three test cycles to design and implement: new processes; changes to internal policy around information management and financial delegation; an organisation structure with new capabilities; enhanced management information; and a transparent governance structure.
- The team collaborated with digital developers to design a new digital service to improve customers' access to information and advice and transform the processes that describe how they interact with Adult Services.

### Outcomes

The bespoke digital service and contact centre:

- Increased the contact centre resolution rate from 30% to 70%; and
- Reduced the cost to serve customers by 25%.

Adult Services have been able to make a compelling business case for investing in the contact centre to deliver longer term savings across their front line teams.

# Best practice case studies (continued)

## Council– Digital services

### Overview

An English Council had set out their vision to continue delivering great services to its citizens, while responding to the challenge of reducing costs, through the use of digital capabilities.

### The challenge

Three main objectives were set as part of the Council's digital vision:

- To be digital by default
- To be cost effective in delivery of services
- To increase the productivity of the Council

### What we did

Deloitte supported the Council in the development of a digital strategy and seconded an individual as Digital Director for an agreed period. We identified the technology solutions required to deliver the large scale change required and supported the procurement of multiple technology components for the platform.

We provided the core design to support the implementation phase which included:

- Creating a new Customer Service Model.
- Designing a new transactional website with personalisation and 25 new online services for use by the public, ranging from map-based pothole reporting to secure access to care information for the elderly.
- Designing a new multi-channel customer platform to handle queries from phone, email and social media.
- Designing a tiered security model that allows members of the public to register for secure online services that handle sensitive information.

### Outcomes

The online services for customers have made services simpler and more accessible and shifting transactions to cheaper channels.

The scope contributed towards directly realising and enabling approximately £45m of recurring savings, and built the capability to identify further reductions.

# Best practice case studies (continued)

## Council – Re-defining the care offer

### Overview

The Council was facing a significant funding gap, which was challenging the future sustainability of the Council. This was in the context of an aging population and increased demand for adult social care services.

### The challenge

The Council was facing a significant funding gap, which was challenging the future sustainability of the Council. This was in the context of an aging population and increased demand for adult social care services.

### What we did

**Re-defined the care offer:** jointly with staff we developed a strengths based, tiered model was developed to promote a consistent approach among social care practitioners. The approach promotes reablement and considers alternative creative approaches to meeting need which draws on a person's natural support.

A framework was developed to guide staff in their practice and we then delivered training and communications to upskill staff and promote the new approach. This was supported by a benefits tracking system to monitor progress across the service and to address variance between teams.

**Targeted reviews:** through a diagnostic of the social care data, we prioritised a number of service user reviews (adults and children with disabilities). We worked with the Council to put in place a dedicated team and support them to undertake strengths based reviews which included preparing and delivering an induction programme; putting in place a benefits tracking system; and undertaking regular reporting and team meetings to discuss progress and unblock issues.

**New front door:** We supported the Council to put in place a new approach for managing demand at the front door, redesigning the customer journey including the promotion of digital channels. We redesigned processes and increased the skills and delegated authorities of call handlers in the contact centre to improve resolution at the first point of contact.

### Outcomes

The Council had a savings target for the whole council that they asked us to help them jointly achieved of £10.5m over 2 years. We helped them deliver £15.5m over 3 years. £9m of this was from adult and children with disabilities services and the remaining on procurement initiatives (see other case study).

# Best practice case studies (continued)

## Council – Procurement transformation

### Overview

An English Council was facing significant financial pressures which if they continued it was projected that the Council would run out of money in three years time. The Council spends a large proportion of its budget with third party suppliers so visibility and grip of this spend was critical to addressing the financial pressures.

### The challenge

The Council did not have visibility of its third party spend in one single place. Council staff were often not using agreed frameworks and were spot purchasing. The small central procurement team had limited influence over spending across the Council, with many procurement activities taking place in a devolved manner.

### What we did

**Category savings identification and delivery:** we aggregated all the data from across the whole Council on third party spend providing the Council with visibility of spend for the first time. This enabled us to identify invoicing errors to clawback over payments and develop categories of spend to prioritise areas of focus. The categories identified included spend on temporary staff and transport. Working in partnership with procurement staff, we put in place better controls around spend in these areas and supported the Council to undertake work to rationalise its spending and utilise contractual levers to deliver savings.

**Procurement operating model:** to facilitate longer term change, we worked hand in hand with the Council to develop and implement a new procurement operating model and to carry out stakeholder engagement with business owners across the Council to gain their buy in. We assisted the procurement team in navigating the necessary governance processes, creating new job descriptions and delivering training to upskill staff and increase their confidence to support the different business areas.

### Outcomes

Our support helped the Council to unlock savings of over £6.5m on third party spend with a year. We also enabled the procurement team to boost their influence across the organisation, gain better rigour over their external spend and increase value-for-money from their contracts.

# Deloitte perspectives

## Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insights on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/talking-public-sector.html>

## Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10<sup>th</sup> edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share [our perspective](#) which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier*.

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-tech-trends.html>

## Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html>

The Digital Disruption Index is available online:

<https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html>

**One of the key insights is around Artificial Intelligence (AI)** which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.

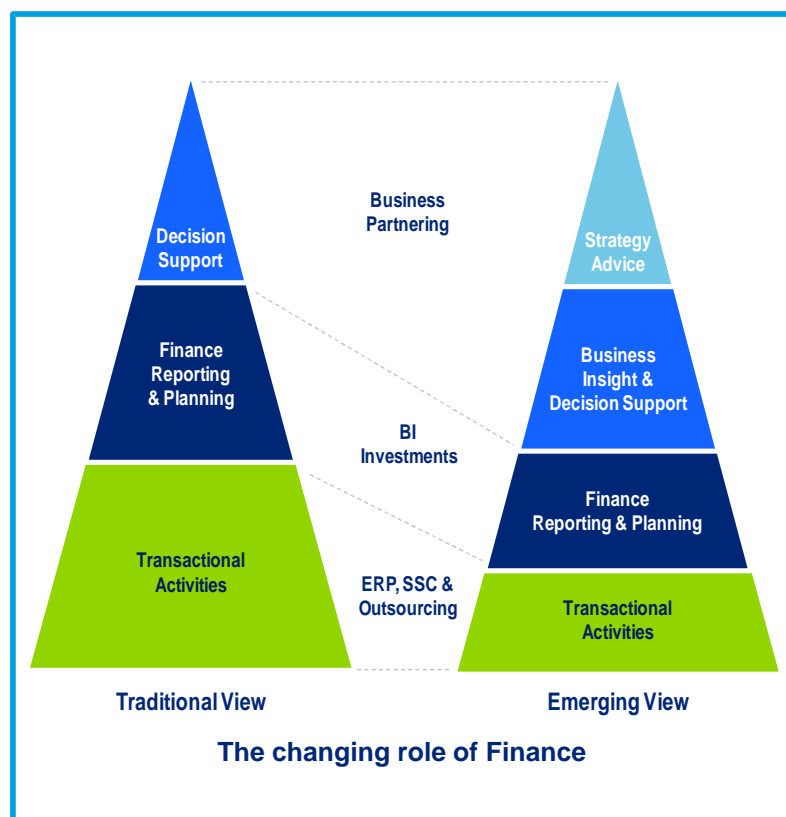
**We have recently been engaged with NHS Lothian where we have gone live, as part of a data gathering and piloting phase, with two unattended and six attended robots. These are helping clinicians to triage referrals quicker and are also automating the invoice raising process in the finance department.**

# Effective Finance Business Partnering

The modern finance function is an increasingly important strategic partner to organisations and businesses facing a range of complex challenges

## Overview

In an increasingly complex business environment the Finance function is now tasked with delivering decision support and strategy advice, moving away from low value transactional activities. Contributing to outcomes in the strategy rather than focussing on tactical or incremental changes. By taking advantage of improved data availability, smarter tools and skilled resource, Finance now has the opportunity to transform to meet business needs.



### Strategic Relationship

Business partnering Is the development of a successful, strategic relationship between Finance and the rest of the organisation/business, for example working in partnership with procurement and the supply chain.

### Deep Insights

Business partnering involves the provision of deep insights into the business, its performance, the market and the competition, to support decision making and deliver strategy and outcomes.

### Decision support

Business Partnering leads to the business actively relying on Finance for input on all major decisions with a tangible financial impact.

### Challenge

Business Partnering includes the ability for Finance to challenge assumptions in decisions and drive cost consciousness.

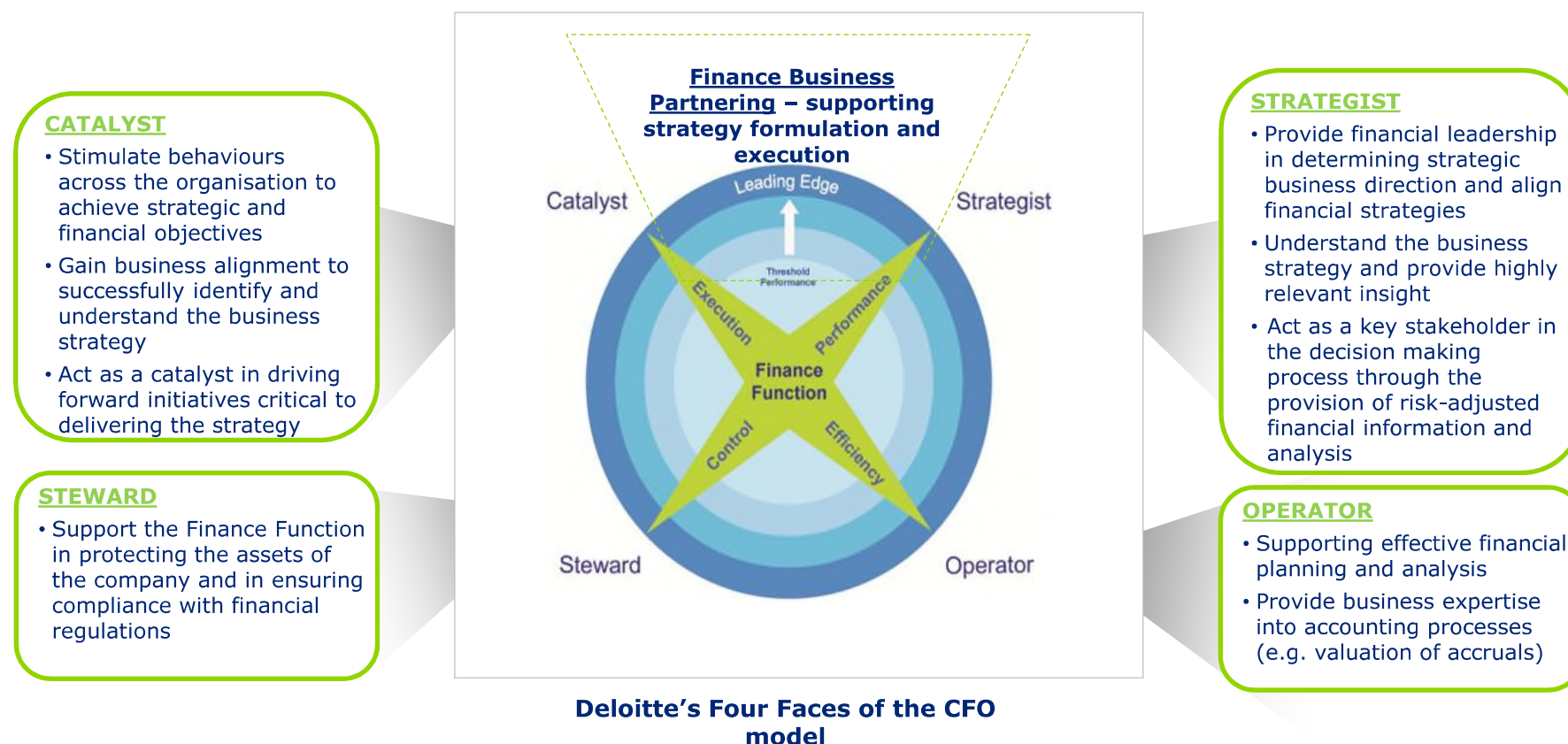
### Value add

Business Partnering is key to unlocking value otherwise untapped by the business.

# Effective Finance Business Partnering (continued)

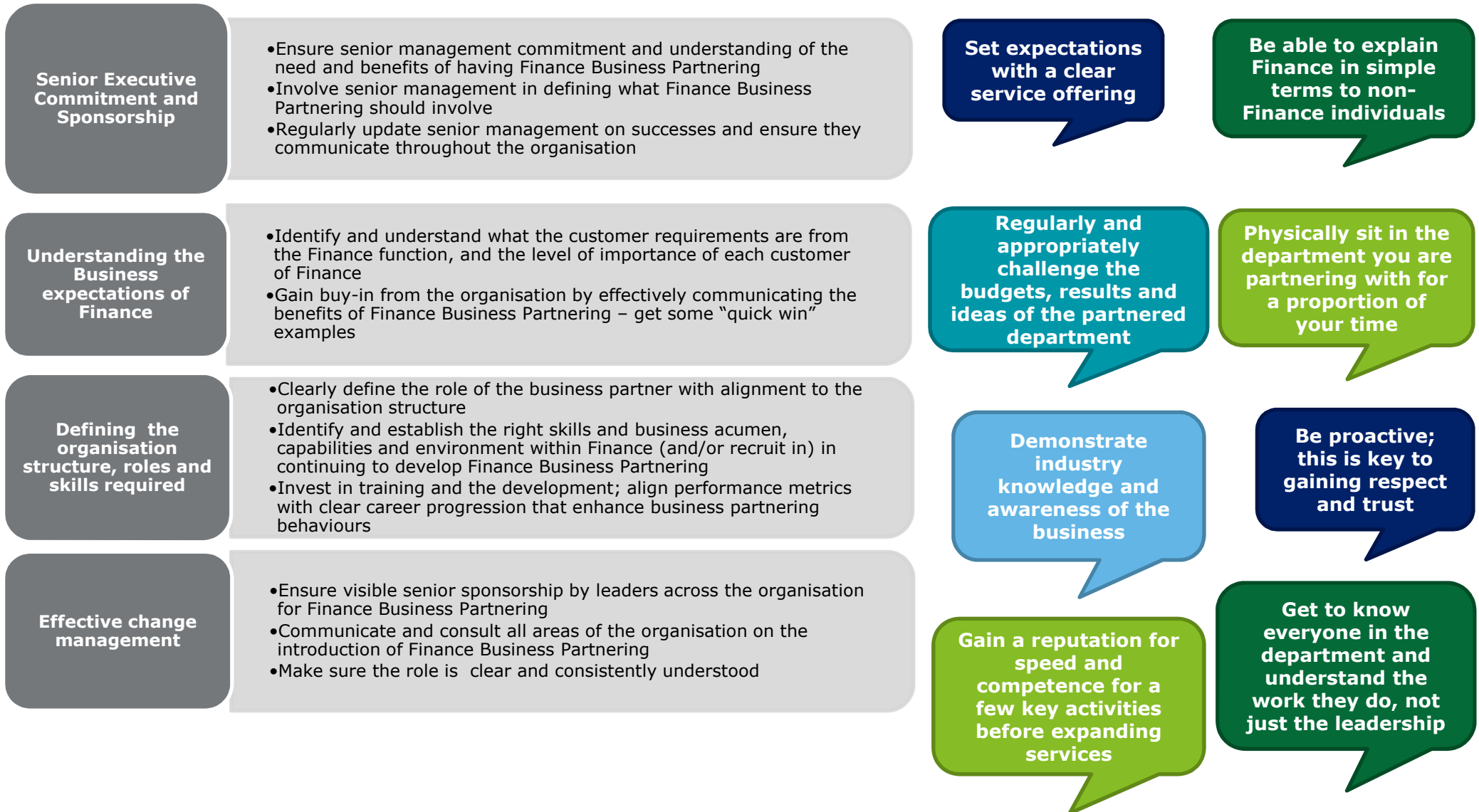
Finance Partners need to have both the technical ability and emotional intelligence with sufficient capacity to improve the financial acumen of the organisation.

'Business Partnering' can be defined as the role that Finance undertakes to support and challenge the business, creating value by improving the quality of decisions (e.g. budgets, resource allocations & outcomes) and ensuring that a chosen business strategy delivers the highest value at an acceptable level of risk.



# Effective Finance Business Partnering

## What makes Finance Business Partnering work?







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