

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

Present:

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

Apologies:

A Manson

In attendance (Officers):

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

Also Present:

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

Also in attendance (Officer):

K Watt, Deloitte

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

06/19 **Internal Audit Annual Report 2018/19**

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

The Chief Internal Auditor introduced the report and explained that this had been a transitional year having recently taken on the role as Chief Internal Auditor. He

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

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

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

Decision:

The Audit Committee NOTED the content of the report.

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

07/19 **Annual Governance Statement 2018/19**

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

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

In responding to a question, the Executive Manager – Finance confirmed that the significant issues would be reported in September 2019 and followed up next year as part of the annual governance statement for 2019/20.

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

Decision:

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

08/19 **Interim Audit Report on the 2018/19 Audit – Shetland Islands Council**

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

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

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

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

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

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

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

During further questions, Ms Watt confirmed that the report had been provided earlier to allow Members and Officers the opportunity to consider and implement recommendations over 9 months, rather than 6 months between September and March. She added that some actions had already been taken. Reference was also

made to the Value for Money section and in referencing the IJB, Ms Watt was asked how pressure could be put on the NHS and the Council to ensure that the IJB have a budget of their own rather than a deficit situation that is sorted at the last minute at the end of each year. Ms Watt advised that all parties should work together on this and that there are some areas where the IJB has one budget. She said however that this was recognised as a difficult thing to do and Shetland was not the only area with this issue.

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

During his address, the Chair said that he welcomed the report and that he had reflected on its content. He expressed his disappointment that Deloitte had reported the Council's performance as mediocre at best. He referred to the key areas identified and said that Senior Management was seen as inadequate and there had also been mention of the IJB. The Chair said that improvements had been identified for governance and he noted that there was a new Performance Management Framework for 2019-2024 being presented to Policy and Resources and Council next week. From a positive perspective he said that the report states SLAP and the College Merger will bring savings if it is managed and monitored appropriately. The Chair said that the Council is urged to identify savings immediately, this financial year with no draw on reserves, but he said that the reserves draw was due to the lack of fair funding for ferries which was a failure of the Scottish Government. He said that this lies at the heart of the Scottish Government who had a duty to honour the commitment it made and that Shetland should not be treated differently from all other Island groups. The Chair said that the key to success was its staff and this was an essential expense that should be nurtured sensitively. The Chair thanked everyone involved with the preparation of the report.

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

Decision:

The Audit Committee:

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

The meeting concluded at 10.55am.

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Chair