Shetland Islands Council

Report to the Audit Committee, Members of the Council and the Controller of Audit on the 2021/22 audit

Issued on 15 November for the meeting on 23 November 2022

Contents

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the Annual Accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee (“the Committee”) of the Shetland Islands Council (“the Council”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Accounts**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Council’s duty to secure best value. As the Accounts Commission published the findings of the Controller of Audit’s Best Value Assurance Report (BVAR) in August 2022, our conclusions have largely been informed by that work to avoid duplication of audit resource.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion for both the Council and the charitable trust.

Following updates made as agreed during the audit, the Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of the Council.

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 10.

We have identified four adjustments above our reporting threshold, which are included on page 48, two of which has been corrected by management and the other two are uncorrected. This includes one material adjustment in relation to the valuation of a specific group of assets that were not subject to a full valuation due to the 5-year rolling valuation process applied by the Council. This arose as a result of increasing build costs linked to the significant rises in inflation over the last year which had not been reflected in management's impairment review.

Status of the Annual Accounts audit

Outstanding matters to conclude the audit include:

- Response to legal letter;
- Finalisation of internal quality control procedures;
- Receipt of final updated Annual Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our findings and conclusions on each dimension are set out on pages 26 to 38 of this report. Key highlights include:

***Financial management* -** The Council continues to have strong budget setting and financial monitoring arrangements in place. However, a number of areas identified by internal audit need to be addressed to improve the overall control environment.

***Financial sustainability* -** The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term. It also continues to use an unsustainable amount of reserves to balance its annual budget. Elected members need to work with Council management to set out how it will meet the estimated funding gap. The Council also need to fully embed its Change Programme. It remains critical that this work is progressed at pace and scale to demonstrate that the Council is financially sustainable over the medium to longer term.

***Governance and transparency* -** Elected members and senior management continue to have a good working relationship, however, do not yet provide the strategic leadership needed to coordinate and drive forward plans. The governance arrangements continue to work effectively and the Council continues to be open and transparent.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions and best value (continued)

Value for money - The Council performance management framework requires improvement. The planned work by management should help ensure that the Council has robust arrangements in place to comply with the Statutory Performance Indicators (SPI) Direction, including its public performance reporting requirements.

The Council continues to perform well against national benchmarking data and has some of the highest service satisfaction scores in Scotland.

Best value - The Council has not yet demonstrated that it is meeting its Best Value duty in a number of important areas.

Next steps

An agreed Action Plan is included on pages 49 to 57 of this report, including a follow-up of progress against prior year actions.

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.

We have also included our "sector developments" on pages 44 to 46 where we have shared Audit Scotland's national reporting and our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

During the year, we have also provided support as part of the induction programme for elected members.

Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Council, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Elected Members, management and staff for the good working relationship over the period of our appointment.

Pat Kenny
Associate Partner


Annual Accounts Audit

Quality Indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading			Reason
	FY22	FY21	FY20	
Timing of key accounting judgements	●	●	●	Support for key accounting judgements such as property, plant and equipment ("PPE") valuations, provisions and net defined benefit pensions liabilities was provided on time and were of good quality.
Adherence to deliverables timetable	●	●	●	The Council largely provided information in line with agreed deadlines.
Access to finance team and other key personnel	●	●	●	Deloitte and the Council have worked together to facilitate remote communication during the audit. This has included effective use of such technologies as Microsoft Teams and Deloitte Connect. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers	●	●	●	Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Accounts. This is borne out by the resubmission rate on requests for the audit being low.
Quality of draft Annual Accounts	●	●	●	A full draft of the Annual Accounts was received for audit on 30 June 2022. We identified a number of minor amendments which have been updated in the audited accounts, and we identified a number of areas of good practice in the Annual Accounts.

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Quality Indicators (continued)

Impact on the execution of our audit (continued)

Area	Grading			Reason
	FY22	FY21	FY20	
Response to control deficiencies identified				We identified one control deficiencies during our audit., which has been accepted by management, as discussed further on page 21.
Volume and magnitude of identified errors				We have identified four adjustments from our audit work to date, including one material adjustment in relation to asset valuations, discussed further on page 14.

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Our Audit Explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £3.879m based on gross forecast expenditure. We have updated this to reflect final figures and completed our audit to materiality of £4.142m, performance materiality of £2.899m, and report to you in this paper all misstatements above £0.207m.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Committee's attention our conclusions on the significant audit risks. In particular the Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant Risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of COVID-19 related income	✓	✓	D+I	Satisfactory		Satisfactory	11
Management override of controls	✓	✓	D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit

Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant Risks (continued)
Recognition of COVID-19 related income

Risk identified and key judgements

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2021/22 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2021/22, the Council has received additional funding of £5.490m in relation to COVID-19. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Scottish Government (£4.3m).

We have pinpointed the significant risk to the completeness and occurrence of the funding for COVID-19 mobilisation costs and the completeness and accuracy of the agency arrangement disclosures.

The key judgements for management are assessing:

- Any conditions associated with the mobilisation cost funding; and
- Whether the Council is acting as a principal or agent in administering the business support schemes.

Deloitte response and challenge

We have performed the following:

- Assessed the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Tested a sample of funding for COVID-19 mobilisation costs and confirm these have been recognised in accordance with any conditions applicable; and
- Tested the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
  - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
  - The Balance Sheet reflects the debtor or creditor position at 31 March 2022 in respect of cash collected or expenditure incurred on behalf of the principal; and
  - The net cash position at 31 March 2022 is included in the financing activities in the Cash Flow Statement.

Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting and the "*Guidance on Accounting for Coronavirus (COVID-19) Grants/ Funding Streams*" issued by LASSAC.

Significant Risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates considered is provided on the following page; and

- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant Risks (continued)
Management override of controls (continued)

Key judgements	The key judgement in the Annual Accounts are those which we have selected to be the significant audit risks around the recognition of COVID-19 related income (page 11). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (pages 16-17), and the recognition of expenditure (page 19). In the table below, we set out our challenge of the assumptions used in the determination of fishing quotas, PFI projects, property valuations, and investments.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Fishing Quota	The Council holds a substantial amount of fishing quota, leased to third parties for use in the year. The value of fishing quota at the year end was £43m, which is an upward revaluation of £10.1m from the prior year. The valuation of fishing quota is performed by an independent expert. The price that quota attract is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market.	All valuations are informed by an external expert. Deloitte are satisfied that the independent valuer is suitably competent and has the capabilities to carry out a valuation of the fishing quotas held by the Council. We have assessed the objectivity and competence of management's expert and developed an independent estimate of the value based on information obtained from the active market in the year. We have also assessed the Council's valuation against fishing quota held by similar local authorities and assessed the movement against the movement in the market in the year. We have concluded that fishing quota are held at a reasonable value.
Private Finance initiatives ('PFI')	The Council currently has one PFI project: the Anderson High School contract. The PFI liability is valued based on the value of the remaining lease payments under the relevant accounting standards. The minimum lease rental is split between interest and principal using the actuarial method. In 2021/22, the Council made payments of £1.260m on PFI projects.	We obtained and assessed the initial PFI agreements in place and reconciled to the payment schedules for the model. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our valuations work. We are satisfied that the PFI liability recognised in the Annual Accounts is in line with the models and there is no indication of management bias.

Significant Risks (continued)

Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	The Council is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with it modern equivalent asset. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. The Council has had an independent valuation carried out at 31 March 2022 by its internal valuers to include valuation of approximately 20% of all of the Council's land and property in accordance with its 5-year rolling programme. The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, The Council's revaluation resulted in a net upward revaluation of £4.852m in the draft Annual Accounts (£12.293m after the audit adjustment).	We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Asset Advisory, reviewed the methodology and assumptions applied by the Council's valuer in previous years and concluded it was reasonable. We have confirmed that the valuer and the methodology applied has not changed in the year. We have tested a sample of revaluations in the year, by agreeing the revaluations recorded in the Annual Accounts to the independent valuers reports. As part of this testing, we have confirmed that the movements have been accounted for in accordance with the Code. We have also tested a sample of the inputs used by the valuer, e.g. site sizes, back to supporting evidence, with no issues arising. We have challenged management's assessment for those assets not subject to valuation in the year and consulted with our internal property experts. • For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value movement would be expected in 2021/22. • For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service (BCIS) index and identified a potential increase which may suggest that a full valuation should be performed. Management has subsequently engaged with its internal valuer who has performed an impairment review of those assets not subject to full valuation in the year. This has resulted in an upward impairment adjustment of £7.4m, which has been adjusted in the final Annual Accounts, as disclosed on page 48. We have also recommended that the valuer incorporates this as part of the annual valuations to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.

Significant Risks (continued)
Management override of controls (continued)

Estimate / judgements	Details of management's position	Deloitte Challenge and conclusions
Investments	The Council holds investments at fair value, with valuations provided to the Council by independent fund managers. The value of investments at the year end was £411.438m, a decrease of £26.143m from the prior year., which includes the removal of the SLAP investment. When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk.	Investments are managed by external fund managers, with the valuation of investments provided by them independently. While the balance sheet value is material, the Council only records what they are advised by the independent fund managers in terms of valuations and gain/losses on disposals. The Council have little scope to manipulate the balances as the fund managers provide monthly reports with a comprehensive breakdown of additions, disposals and revaluations. We have consulted with financial instrument experts to review the assumptions and valuations performed by the fund managers, as well as agreeing the valuation of investments to third party evidence or developing a point estimate based on adjusted net asset values. We have not identified any issues through our work. From our review of events since the Balance Sheet date, we have noted that as at 30 September 2022, the investments have reported a £32m negative investment return, which is representative of the difficult six month investment period where most of the main investment asset classes have fallen in value. We have recommended that this is disclosed as a post balance sheet event.

Other Areas of Audit Focus
Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

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

The net pension liability has decreased from £243.841m in 2020/21 to £161.939m in 2021/22. The decrease is combination of an increase of £64m in the fair value of the assets and a reduction of £18m in the liabilities as a result of changes in assumptions.

Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking against nine leading actuarial firms that we consider appropriate as shown the table below;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- We reviewed the disclosures within the accounts against the Code.

	Council	Comments
Discount rate (% p.a.)	2.7	Within reasonable Range
RPI Inflation (% p.a.)	3.65	
CPI Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	
Salary increase (% p.a.)	3.2	In line with funding valuation
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	20.7/ 22.9	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	22.1/ 25.1	

Other Areas of Audit Focus (continued)

Defined benefits pension scheme (continued)

The Council's pension liability, along with other public sector bodies. continues to be impacted by the ongoing legal cases – known as McCloud and Goodwin. Our pension specialists have considered the impact and concluded as follows:

- ***Goodwin*** – this is a legal challenge made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. The 31 March 2020 triennial funding valuation did not include for the impact of Goodwin and no allowance has been made at 31 March 2022. Our pensions specialists have estimated that this could be up to £0.8m (0.1/0.2% of the obligations), which although not material is above our reporting threshold. We have raised an adjustment of £0.8m which has been concluded as an uncorrected misstatement.
- **McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that no allowance for McCloud has been included within the current service cost, consistent with the prior year. However, based on the information provided our pensions specialist have estimated that the potential increase in service costs would be below our reporting threshold. There is still uncertainty about the form of compensation that will be provided to members and therefore the final actual cost of complying with the ruling may be different to the estimate.

From review of the draft actuary report, our pension specialists also identified the following issue:

The actuary has calculated an "experience loss" of £0.234m. Based on the data provided during the audit, we have estimated that this should be circa. £1.424m. In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £1.190m.

Deloitte view

Subject to the above potential adjustments, which are not material, we have concluded that the pension liability in relation to the defined benefits pension scheme is fairly stated.

Other Areas of Audit Focus (continued)
Infrastructure Assets

Background

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The CIPFA Code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2010/11 due to information deficits. This is particularly the case in relation to roads, where the engineering records used for maintenance have not been created to map against identifiable components.

CIPFA/ LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the accounting code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting. The Scottish Government has therefore provided temporary statutory overrides while a permanent solution is developed.

Statutory override 1	For accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
Statutory override 2	For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

Deloitte response

- We have considered the statutory overrides issued by the Scottish Government and confirmed that the Council has opted to adopt both, as summarised above, due to not readily having the information to evidence the derecognition of replaced components of infrastructure assets.
- We have reviewed the updated Annual Accounts and revised disclosures and confirmed that it is compliant with the statutory overrides.
- We have assessed the reasonableness of the Useful Economic Lives (UEL's) applied by the Council in its depreciation calculation and concluded that the UEL's are reasonable, in line with other similar Councils and the risk of a material misstatement on the depreciation charge is remote.

Deloitte view

We have assessed the impact of the adoption of the statutory overrides and confirmed the updated Annual Accounts correctly reflect the required disclosure. We are also satisfied that the depreciation charge for the year, based on UEL's set out within the Council's accounting policy, is not materially misstated.

The Scottish Government expects that Councils will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a more permanent solution is delivered.

Other Areas of Audit Focus (continued)

Expenditure recognition

Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 11, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

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

Deloitte response

We performed the following procedures to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 48,163 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 2,984 invoices were processed. We therefore concluded that a risk of material misstatement was remote.

- An analytical review to test the completeness and accuracy of year-end creditor balances was carried out. We are satisfied that the amount recorded is reasonable.

- Detailed testing of a sample of accruals.

	Invoice Analysis
Median invoice amount	£86
Average number of invoices processed per month	7,354
Number of invoices that would need to be unrecorded to cause a material misstatement	48,163
Total invoices processed in April 2022 (one month after year-end)	2,984 (total value £6.942m)

Deloitte view

We have concluded that expenditure has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

Other Areas of Audit Focus (continued)

Charitable trusts

Risk identified

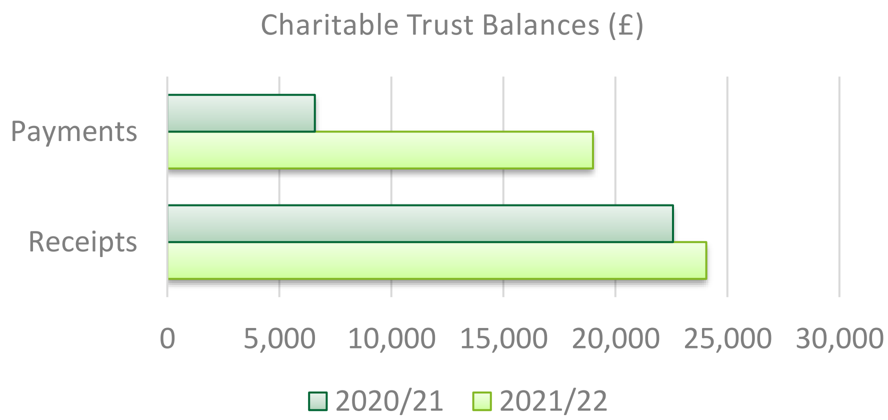
From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. Shetland Islands Council administer one such registered charity – Zetland Educational Trust.

As the gross income of the Trust is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006.

A summary is provided in the table adjacent. From an initial review of draft annual accounts we note that there has been a large movement in payments which have increased from £6,577 in 2020/21 to £19,002 in 2021/22. This is largely due to the impact of the COVID-19 pandemic on the prior year activities of the trust.



Deloitte view

Our testing of the charitable trust is complete with no issues arising. We anticipate issuing an unmodified opinion.

Other Significant Findings

Internal control and risk management

During the course of our audit we have identified two internal control finding, which we have included below for information.

Area	Observation	Priority
PPE Valuations	The CIPFA Code requires that, where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. A class of asset may be revalued on a rolling basis provided revaluation of the class of asset is completed within a short period of the revaluations. The code defines a "short period" as "once every 5 years". In line with other Council's, Shetland Islands Council operate a rolling programme of revaluations over a 5 year period. Given the increase in build costs as a result of inflation, property valued based on a depreciated replacement cost could significantly increase in value during this five year period and following additional work performed by the Council's internal valuer, the assets have increased in value by £7.4m. We therefore recommend that the property valuer should introduce a more detailed process as part of the annual valuations, similar to the exercise carried out as part of the audit, to document their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.	

The purpose of the audit was for us to express an opinion on the Annual Accounts. The audit included consideration of internal control relevant to the preparation of the Annual Accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other Significant Findings (continued)
Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The Council has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Council's accounting practices are appropriate.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the accounting treatment for infrastructure assets (discussed on page 19), the judgements in relation to the fishing quotas (discussed on page 13), and the judgements in relation to the property valuations (discussed on page 14).

Regulatory Change:

IFRS 16, Leases, was due to come into effect on 1 April 2022, however, has been deferred to be effective from 1 April 2024 and will be included in the 2024/25 Code. Local authorities may adopt it in preceding financial periods if deemed appropriate.

The Council has disclosed this within note 3 of the Annual Accounts and concluded that due to the need to reassess lease calculations, together with uncertainty on expected leasing activity, a quantification of the expected impact of applying the standard is currently impracticable.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Council on matters material to the Annual Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our Audit Report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the Annual Accounts

Based on our audit work completed to date, we expect to issue an unmodified audit opinion.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the Annual Accounts that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

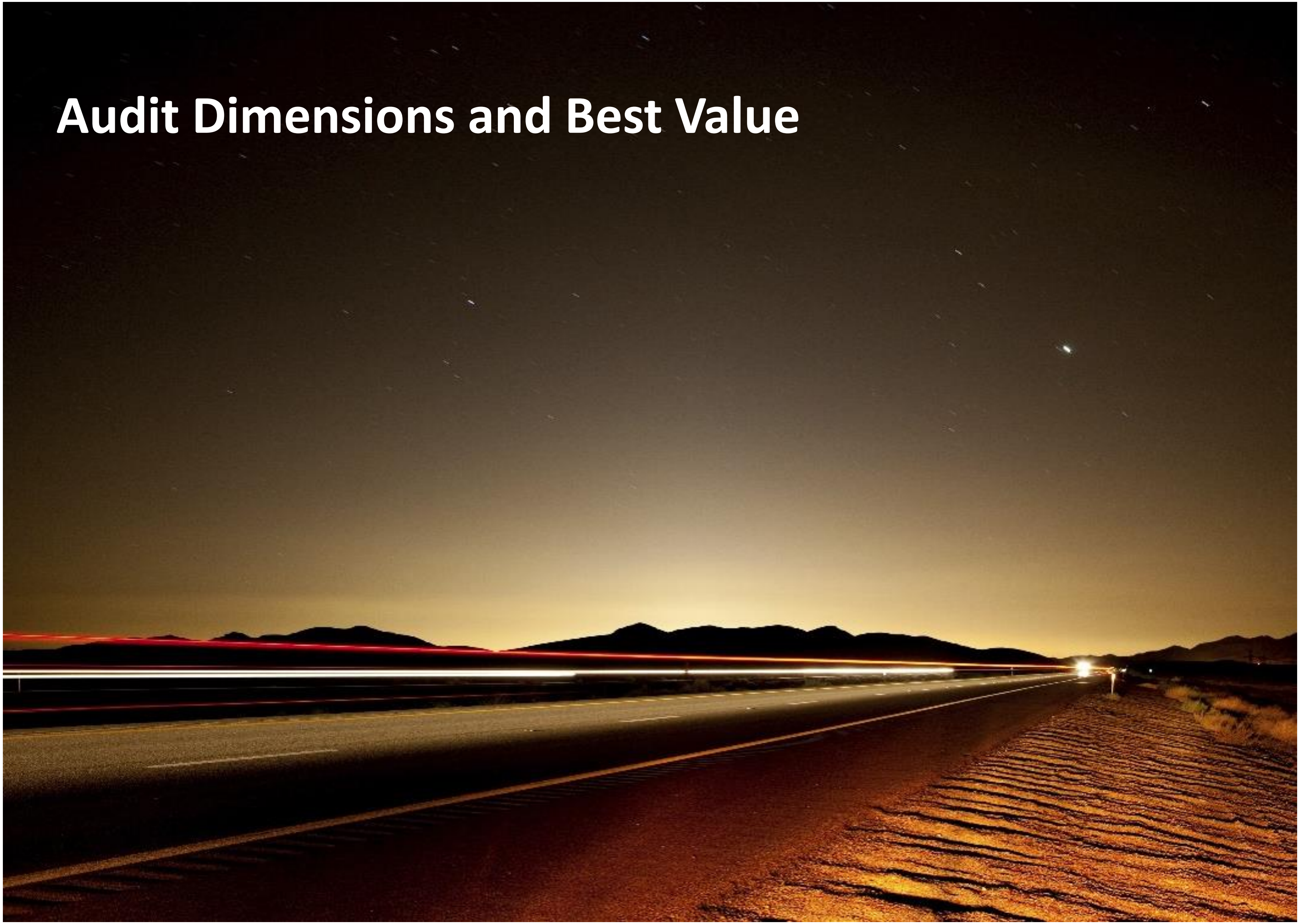
The narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performed and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit is discussed further on page 24.

Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration Report, the Annual Governance Statement and whether the Management Commentary is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focuses on the strategic planning context.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Following updates made as agreed during the audit, including ensuring appropriate disclosure of the performance of the Council, we are satisfied that the Management Commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Council's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Accounts and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. Following updates made as agreed during the audit for minor improvements we can conclude that the Annual Governance Statement is consistent with the Annual Accounts, our knowledge and the accounts regulations.

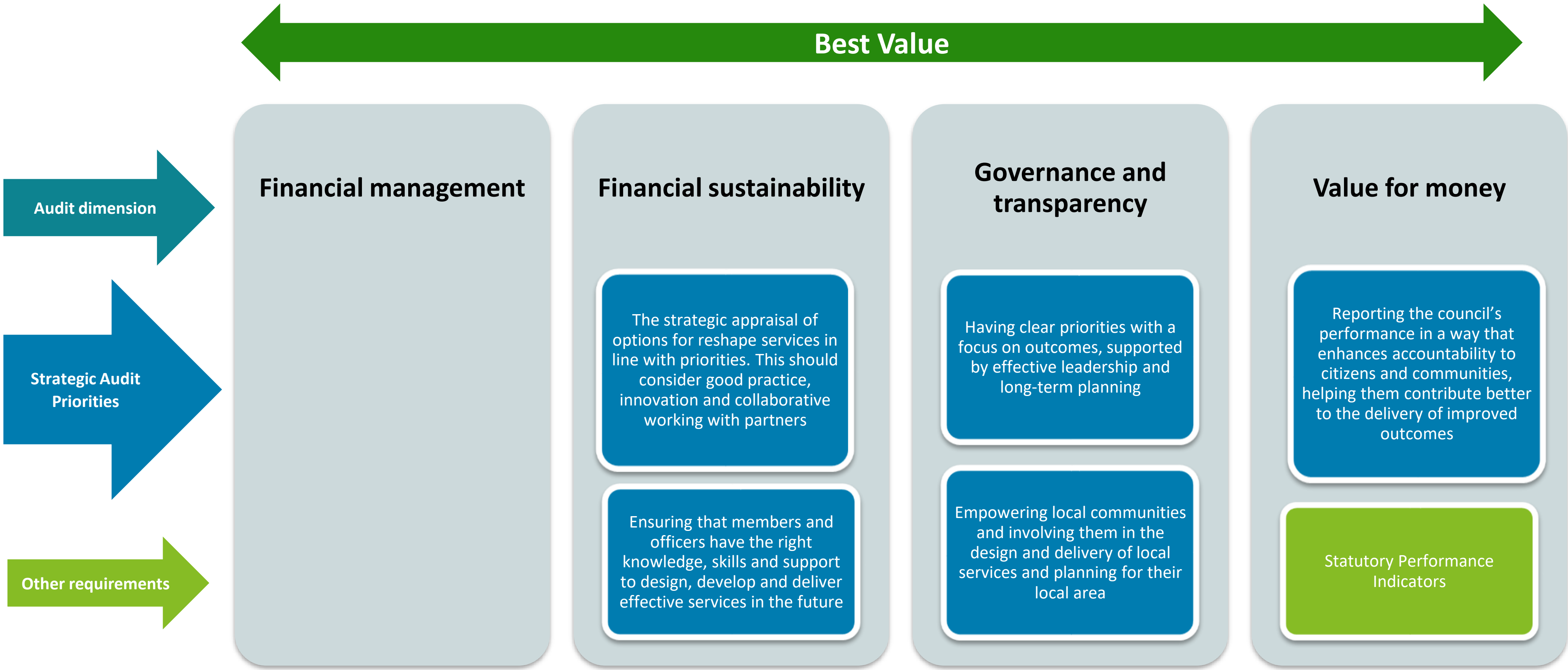

Audit Dimensions and Best Value

Audit Dimensions and Best Value

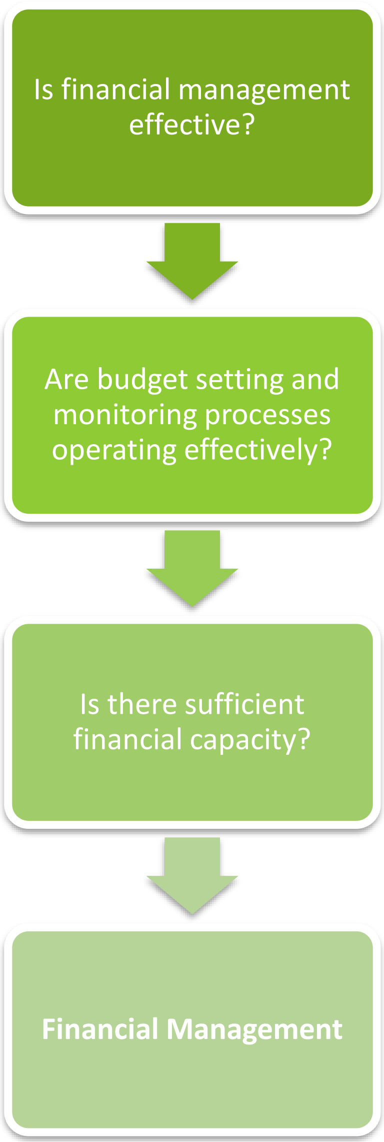
Overview

This section of the report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on Best Value, the Accounts Commission's **Strategic Audit Priorities (SAPs)** and the **Statutory Performance Information** Direction.

In recognition of the demands on auditors' time and the challenges of remote auditing, the Accounts Commission agreed that auditors are not required to specifically consider and report on the SAPs as part of the 2021/22 audit. The SAPs continue to be important but the work on the audit dimensions will be used to inform progress. We have therefore set out below how each SAP inter-relates to the audit dimensions.



Financial management



Significant risks identified in Audit Plan

In previous years we have concluded that the Council had strong financial management arrangements in place and a sufficiently qualified and experienced finance team. We therefore did not identify any significant risks in relation to financial management during our planning. We have continued to review the arrangements in place, specifically following up on the recommendations made in our previous audit report in relation to the potential enhancements to the Financial Monitoring Reports to members, as summarised on the following pages.

Current year financial performance

The **2021/22 General Fund budget** of £122.698m was approved by the Council on 17 March 2021. This included an unsustainable draw on reserves of £8.091m. It has been updated throughout the year to include in-year movements and the final outturn position reported was a net underspend of £5.8m (4.7%) before the impact of any carried forward funding was taken into account. The Senior Management Team and Councillors, regularly review progress against budget throughout the year, with quarterly reporting to the Policy and Resources Committee for both revenue and capital expenditure. From review of the reporting throughout the year, variances are clearly reported and explained. We are pleased to note that, in line with our previous year recommendation, the reporting has improved to now include reasons behind changed made to the approved budget throughout the year.

The underspend was largely driven by a reduction in the provision for pension scheme cessation related to the college merger project of £2.4m, but also partly driven by the continued disruption and delays to service level activity as a result of the ongoing pandemic.

The budget incorporated planned savings of £3.2m. The monitoring reports do no currently set out how the Council has performed against the specific savings target. This is therefore an area that the monitoring reports could be further improved to allow the Council to monitor whether savings are being achieved as initially planned.

The **2021/22 Housing Revenue Account (HRA)** budget, agreed by the Council on 17 March 2021, ended the year with a small overspend of £0.02m. This has been consistently reported to members throughout the year as part of the normal reporting cycle. The primary reason for the overspend is higher than anticipated expenditure on repairs and maintenance, driven by increased prices for raw materials, offset by slippage on the HRA capital investment programme which will run into 2022/23.

Financial management (continued)

Current year financial performance (continued)

The total capital expenditure across the General Fund, Harbour Account and HRA totals £17.9m, against an approved budget of £29.1m and revised budget of £19.8m, representing an underspend of £1.9m.

	Original Budget (£'000)	Revised Budget (£'000)	Actual Outturn (£'000)
General Fund Capital	21,222	13,057	11,695
Harbour Account Capital	2,252	2,769	2,343
HRA Capital	5,617	4,012	3,842
Total Capital	**29,091**	**19,838**	**17,880**

As can been seen from the above table, the significant changes from the original budgets are due to having to re-profile a significant portion of capital projects to future years due to the COVID-19 restrictions impacting on the construction industry.

Finance capacity

The finance team has remained consistent throughout the year. Whilst COVID-19 has created additional work for the team, including the additional reporting requirements to the Scottish Government and administering of the business support grants, this is being well managed.

After the year-end, the Executive Manager – Finance (Section 95 Officer) left the Council and a recruitment process has been completed with a preferred candidate identified for this post. Interim arrangements are in place for the approval of the 2021/22 accounts.

Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have also carried out a review of the internal audit reports published throughout 2021/22. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2021/22 Internal Audit Plan was approved by the Audit Committee in March 2021 and regular updates on progress against the plan were provided to the Committee.

The Internal Audit Annual Report for 2021/22 was presented to the Audit Committee in June 2022, which confirmed that the majority of the planned fieldwork had been completed as planned and there were no material changes to the audit plan previously approved.

The Internal Audit Annual Report highlighted a number of outstanding recommendations at the year-end which had been identified as higher risk due to the length of time overdue and/ or the effect on key controls. It also highlighted the following areas where the control environment had been assessed as unsatisfactory in the following areas:

- The use of consultants;
- Procurement; and
- Management of cash and belongings at health and social care services.

It is critical that the Council address the findings raised by internal audit in the above areas and implement agreed actions on a timely basis to ensure that its overall financial management arrangements are robust.

We have considered the work of internal audit as part of our audit work on the Annual Governance Statement, as discussed on page 24, and satisfied that the above issues have been appropriately disclosed.

Financial management (continued)

Standards of conduct for prevention and detection of fraud and error

We have assessed the Council's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the increased risk of fraud as a result of COVID-19. Overall we found the Council's arrangements to be designed and implemented appropriately.

National Fraud Initiative (NFI)

All councils are participating in the most recent NFI exercise which commenced in 2020/21. We have continued to monitor the Council's participation and progress in the NFI during 2021/22 and submitted an assessment of the Council's participation to Audit Scotland in February 2022. The information submitted was used by Audit Scotland in its NFI report which was published in the August 2022. We concluded that the Council was fully engaged in the exercise. However, in line with previous year comments, the Council should assess whether the team currently assigned responsibility for administering the scheme locally have sufficient capacity and authority for seeking action across the whole of the Council.

Deloitte view – financial management

The Council continues to have strong budget setting and financial monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error. However, a number of areas identified by internal audit need to be addressed to improve the overall control environment.

Financial sustainability

Can short term (current and next year) financial balance be achieved?

Is there a long-term (5-10 years) financial strategy?

Is investment effective?

Financial Sustainability

Significant risks identified in Audit Plan

While the Council has historically achieved short term financial balance, there remains a risk that robust medium-to-long term planning arrangements are not in place to ensure that the Council can manage its finances sustainably and deliver services effectively. We have therefore assessed the development of the 2022/23 budget and the medium-long term financial outlook, specifically following up on the recommendations made in our previous audit reports in relation to the formal budget setting policy and process and the Council's Annual Investment Plan. We have also assessed the progress made in delivering the 'Change Programme' in conjunction with the recovery and renewal framework in response to the pandemic, as summarised on the following pages.

2022/23 budget setting

The Council approved a balanced budget of £139.6m for 2022/23 on 16 February 2022. This incorporated an initial budget gap of £5.1m which required a further draw on reserves to achieve financial balance. The proposed budget also included an assumed a 3% increase in Council Tax, however, elected members made a decision to freeze Council Tax at the same level as 2021/22. The approved budget required an unsustainable draw on reserves of £5.45m.

In setting its budget, the Council recognises that there are a number of risks involved in planning the delivery of services for the future. The budgeted assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact, and in particular:

- There are a number of assumptions around anticipated income levels, returns on investments and cost pressures within the budget that are based on the latest information available which may vary throughout the year.
- There is a significant risk around long-term financial sustainability as there is no certainty on the quantum of future funding for general service provision nor for any significant capital investment in the inter-island ferry services.
- Risks exist in relation to the income projections from the Harbour Account as a result of volatility around oil tanker volumes and of volatility in the price of gas, which influences the income received from the Shetland Gas Plant. The Council is currently evaluating the uncertainty regarding future oil streams and use of Sullom Voe.

As concluded in the BVAR "*elected members' input into the budget process is varied and there has been no community engagement in recent years*". This is in line with our conclusions from previous audits, as referred to in the Action Plan at page 50. Management has confirmed that, in developing the Improvement Plan in response to the BVAR, further improvements, particularly around public engagement and consultation around proposed budgets, are being developed.

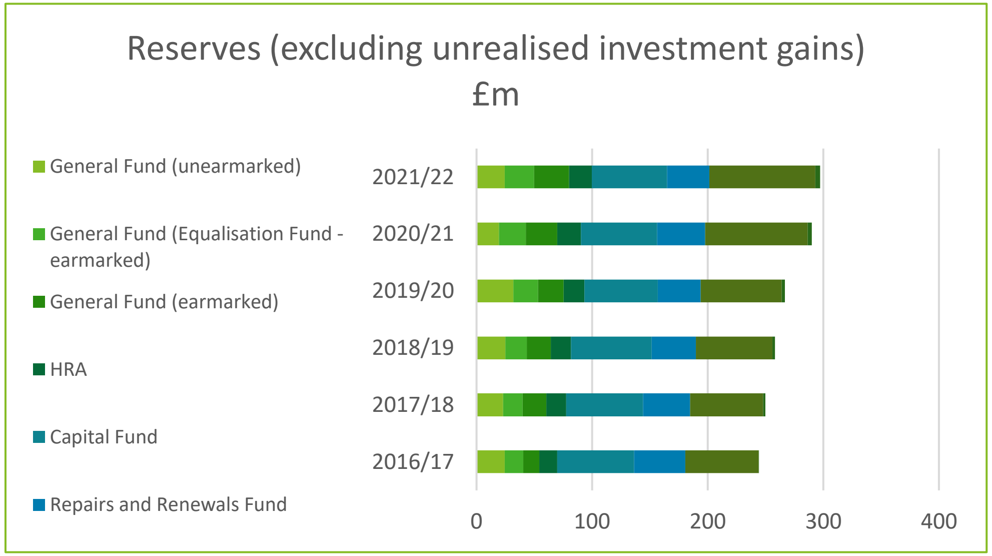
Financial sustainability (continued)

Reserves

The Council's reserves strategy is detailed in both the Medium Term Financial Outlook and the Investment and Treasury Strategy. The Council policy is to maintain the reserves balance and to only draw from these reserves on a sustainable basis.

The reserves position, excluding the unrealised investment gain, at 31 March 2022 is illustrated below. This is showing a slight increase in overall reserves since 2020/21, largely as a result of the underspend achieved in the year and the associated carry forward of funds into 2022/23.

In our previous audit reports we recommended that the Council should clearly set out as part of its Annual Investment Plan what it expects to use the reserves for, how the level and use of reserves will be monitored and remedial action which will be take if reserves fall below a certain level or are not used appropriately. This has still to be progressed.



The level of reserves held by the Council remains high compared to other local authorities. However, as discussed on page 32 and as concluded in the BVAR *"the Council's reliance on reserves to set a balanced budget is not sustainable in the long term"*. We have also considered this further on the page 32 in considering the medium-term financial planning.

Capital planning and treasury management

The annual budget setting process includes approval of an Asset Improvement Plan (AIP) which covers the next five years, with the most recent covering the period 2022-27. The Council has an ambitious AIP over the next five years with a total planned investment of £120m. This includes anticipated expenditure to replace its ageing fleet of inter-island ferry vessels, make improvements to local infrastructure such as roads and ferry terminals and to invest in its schools.

The Council recognises that it cannot afford to proceed with every capital project without additional support and is pursuing alternative funding streams.

As concluded in the BVAR, "*the Asset Improvement Plan is not clearly linked to the Council's priorities*".

The Council has not yet prioritised which projects it will take forward and will need to do this to ensure that its limited capital resources are invested in line with its ambitions.

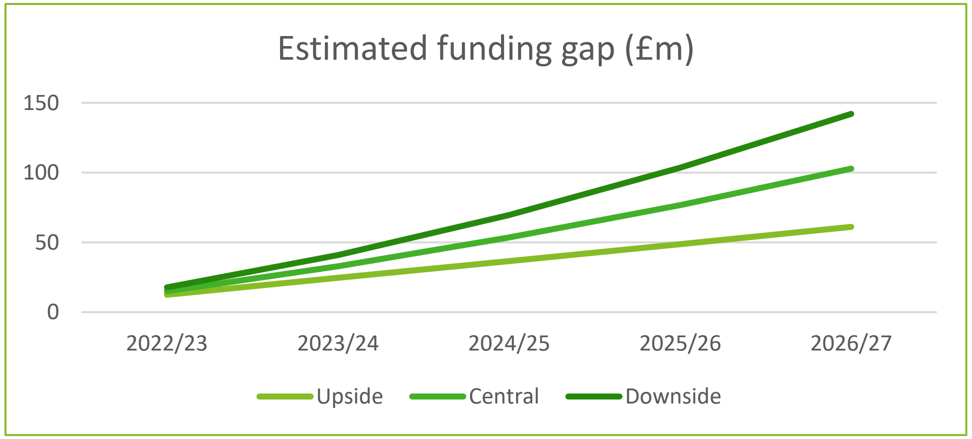
Financial sustainability (continued)

Medium-to-long term financial planning

The Council has a Long-Term Financial Plan (LTFP) covering the period 2015–50. Four financial models based on different scenarios were produced to give an indication of the broad financial impact. This modelling estimated a funding shortfall of over £200 million over the next 35 years, based on the level of capital expenditure required to maintain the existing asset base, while retaining acceptable levels of revenue expenditure.

Given the continuing uncertainty and related challenges created by COVID-19, the Council has not recently reviewed its LTFP. This needs to be progressed and updated to allow the Council to have a clear picture of the financial pressures faced over the long term.

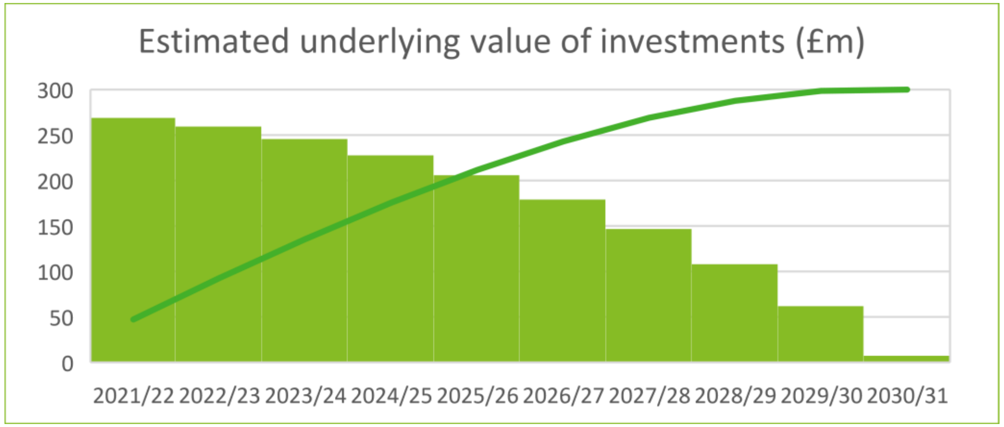
The Council refreshes its Medium-Term Financial Plan (MTFP) on an annual basis, with the latest plan covering the period 2021–27 approved in January 2022. This included scenario planning to model the impact of the key assumptions into three different scenarios. The estimated funding gap over the next five years is between £61.2m and £142.1m, as illustrated below.



In September 2022, the Council updated its financial planning assumptions, which were set out in its Medium Term Financial Outlook. While this has not been reviewed in detail as part of the 2021/22 audit, the revised estimated gap up to 2026/27 is between £50.6m and £157.9m.

While there is a Change Programme in place, as concluded in the BVAR "*there are no clear links between the savings needed and the Change Programme*" and the Change Programme remains at an early stage of development.

In developing its MTFP, the Council estimated that it can sustainably draw around £15m from its reserves each year without eroding the underlying value of the investment. As discussed on page 31, it has historically relied on using more than this amount in order to set a balanced budget. While this reliance has decreased in recent years, the reserves are projected to be fully depleted by 2030/31 if continued at the current rate, as illustrated below.



As concluded in the BVAR "*the Council's financial planning is not sufficiently well developed to provide assurance about its financial sustainability*". This is consistent with our conclusions in previous annual audit reports.

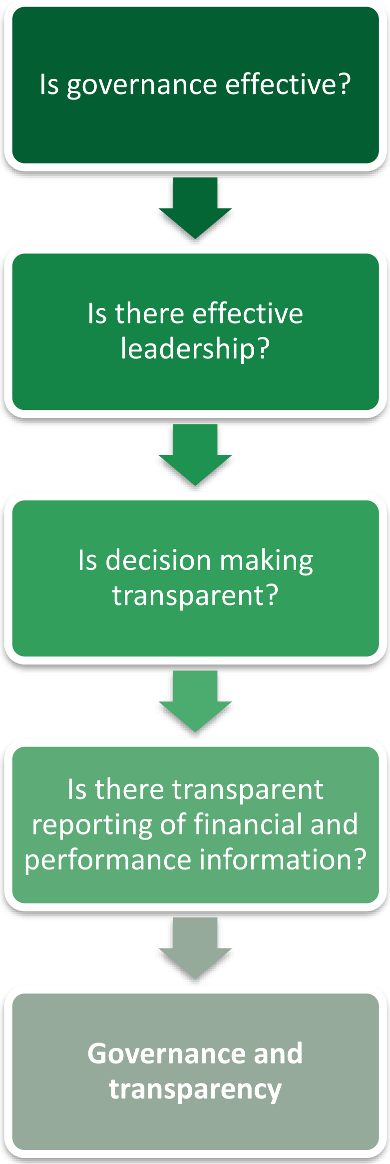
Financial sustainability (continued)

Deloitte view – Financial sustainability

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of between £61.2m and £142.1m over the next five years, and a gap of £200m over the next 35 years. It also continues to use an unsustainable amount of reserves to balance its annual budget.

In line with the recommendation from the BVAR, elected members need to work with Council management to set out how it will meet the estimated funding gap. The Council also need to fully embed its Change Programme. It remains critical that this work is progressed at pace and scale to demonstrate that the Council is financially sustainable over the medium to longer term.

Governance and transparency



Significant risks identified in Audit Plan

In previous years we have concluded that the Council has strong leadership in the Chief Executive, and that the governance arrangements continued to work effectively. We did, however, highlight weaknesses in the Council's political structure and made a number of recommendations. This therefore remained a risk. We have reviewed the work of the Council and its Committees, specifically following up on the progress being made to address the recommendations made in our previous audit reports, as summarised on the following pages.

Leadership

The Senior Leadership Team has remained largely consistent with previous years, however, as noted on page xx, following the year-end, the Executive Manager – Finance has left the Council and a recruitment process has been completed with a preferred candidate identified for this post.

As the Council's leadership was a key area of focus in the BVAR as part of "Does the Council have a clear strategic direction?", we have not duplicated the audit work in this area. The BVAR concluded as follows:

"Elected members and senior management have good working relationships. But some of the supporting plans to deliver 'Our Ambition' lack detail, and the Council's leadership – elected members and management – has not done enough to drive this progress".

Governance and scrutiny arrangements

From attendance at Committee meetings during the year we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings. However, as reported in the BVAR *"there are some instances in the Audit Committee where there is a lack of focus on strategic issues and instead more of a focus on operational issues"*.

In our previous audit reports, we recommended that the Council introduce an annual self assessment of governance arrangements, Committee and Council performance. The implementation of this has been delayed due to resourcing constraints attributed to COVID-19, prioritising other workstreams and conducting local and parliamentary elections. The Council has committed to review and amend its constitution by March 2023 ready for implementation no later than 31 March 2023.

Governance and transparency

Governance and scrutiny arrangements (continued)

We are pleased to note that following our previous recommendation, and as concluded in the BVAR "*the Council offers good training and learning opportunities for elected members with a recently updated member development policy*".

Openness and transparency

The Council continues to be open and transparent, with all agendas, reports and minutes published on the Council website. As concluded in the BVAR "there has been a delay in livestreaming council meetings". The new audio and recording facility was implemented with the opening of the new council chamber, and recordings continue to remain available on the Council's new microsite, with livestreaming implemented from September 2022.

Following the public pound

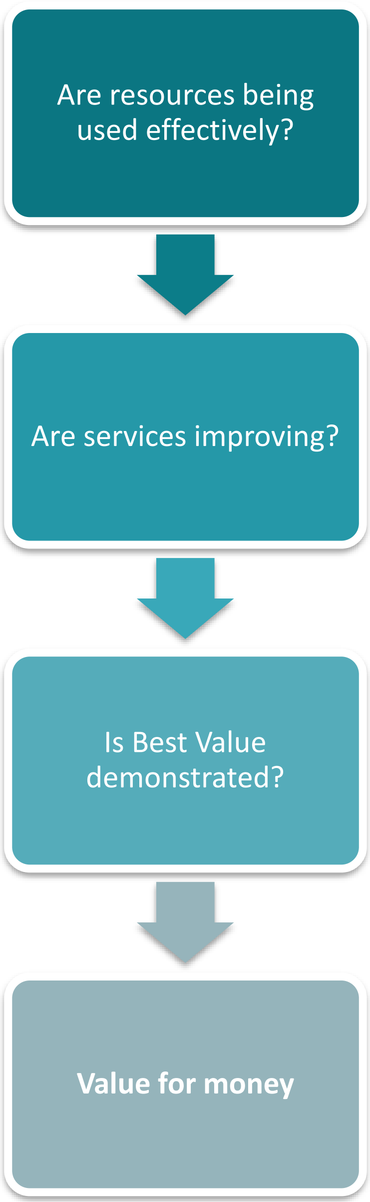
The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

In 2020/21 we noted improvements in reporting, but concluded that the Council still needed to adopt a consistent approach to its reporting. As noted in the follow-up Action Plan on page xx, the Council is currently working to refine reporting to include information about the achievement of intended outcomes so that assurance can be taken that financial support is being used appropriately to deliver agreed activities and outcomes. The Council also plan to include Following the Public Pound assurance in the next update of the internal audit plan for 2023/24.

Deloitte view – Governance and transparency

Elected members and senior management continue to have a strong working relationship, however, do not yet provide the strategic leadership needed to coordinate and drive forward plans. The governance arrangements continue to be work effectively and the Council continues to be open and transparent.

Value for money



Significant risks identified in Audit Plan

The COVID-19 pandemic is expected to continue to have a substantial impact on performance reporting. There therefore remains a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement. We have therefore reviewed the performance reports presented at the Council to assess the extent of openness and transparency during the year, following up on the recommendations made in our previous years audit reports. as summarised on the following pages.

Performance management framework

As the Council's performance management framework was a key area of focus in the BVAR as part of "How well is the Council performing?" we have not duplicated the audit work in this area. The BVAR concluded as follows:

"the Council's own performance management and reporting systems and arrangements are not well developed and inconsistent, with a lack of performance indicators and targets. There have been some recent signs of improvement".

This is consistent with our previous audit recommendations, as referenced in the Action Plan on page xx. Internal Audit has also carried out a review and made five recommendations (four of which were considered high priority requiring urgent attention). Management has confirmed that progress against implementing the recommendations contained in the internal audit report will be followed up by the Audit Committee in the second half of 2022/23, with any changes to the Performance Management Framework requiring Elected Members approval thereafter.

Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value (BV) audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission Statutory Performance Information Direction requires a council to report a range of information in the areas listed below.

SPI 1: Improving local services and outcomes

- Performance in improving local public services provided by (1) the Council itself and (2) by the Council in conjunction with its partners and communities; and
- Progress against desired outcomes.

Value for money

Statutory performance indicators (continued)

SPI 2: Demonstrating Best Value (BV)

- The Council's assessment of how it is performing against its duty of BV, and how it plans to improve against this assessment;
- Audit assessments of how its performance against its Best Value duty, and how it has responded to these assessments; and
- In particular, how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

We have evaluated the effectiveness and appropriateness of the arrangements that the Council has in place, reflecting the conclusions from the BVAR on the previous page.

Performance data

The Council's performance was a key area of focus in the BVAR as part of "How well is the Council performing?" we have not duplicated the audit work in this area. The BVAR concluded as follows:

"*The Council's services perform well, with national benchmarking data showing that performance improved in over half of the relevant indicators in the last five years. Shetland also has some of the highest service satisfaction scores in Scotland. Where service performance is weak, there are examples of the Council taking action to improve*".

Deloitte view – Value for money

The Council performance management framework requires improvement, and this is being taken forward by management. The planned work should help ensure that the Council has robust arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

The Council continues to perform well against national benchmarking data and has some of the highest service satisfaction scores in Scotland.

Best value

It is the duty of the Council to secure ***Best Value*** as prescribed in Part 1 of the Local Government in Scotland Act 2003**.** We have a statutory duty to be satisfied that the Council have made proper arrangements for securing BV.

Duty to secure Best Value

1. It is the duty of the Council to make arrangements which secure Best Value.
2. Best Value is continuous improvement in the performance of the Council's functions.
3. In securing Best Value, the Council shall maintain an appropriate balance among:
   a) The quality of its performance of its functions;
   b) The cost to the Council of that performance; AND
   c) The cost to persons of any service provided by the Council for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the Council shall have regard to:
   a) Efficiency;
   b) Effectiveness;
   c) Economy; AND
   d) The need to make the equal opportunity requirements.
5. The Council shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an Council's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

2021/22 is year six of the extended six-year approach to auditing BV in councils. BV audit work is integrated with the annual audit and we have worked closely with Audit Scotland's Performance Audit and Best Value ('PABV') team to plan, perform and report on the BV audit work.

A key feature of the approach to auditing BV is the Controller of Audit providing a Best Value Assurance Report ('BVAR') to the Accounts Commission for each Council once over the audit appointment. The BVAR for Shetland Islands Council was published in August 2022. This concluded that:

"The Council has not yet demonstrated that it is meeting its Best Value duty in a number of important areas. Across its services and activities, the Council can point to examples of good practice, but it has been slow to improve its plans for financial sustainability, its performance management and reporting, its transformation programme and aspects of its community engagement and empowerment. While there has been some very recent progress, the Council's prospects for making the changes needed are uncertain. The elected members need to increase their ambition, pace and focus to deliver in these important areas".

The Council plan to formally consider the findings and recommendations at its meeting on 23 November 2022. Following the publication in August 2022, members and officers have started to develop an action plan taking into account all the points raised.

Deloitte view – Best Value

The Council has not yet demonstrated that it is meeting its Best Value duty in a number of important areas.

Emerging issues

Climate change

Background
In our 2020/21 report, we set out a high level assessment of the work that the Council has done in relation to preparing for the impact of climate change against our baseline expectations. This concluded that climate change is clearly on the Council's agenda, recognised as a very high risk on the Council risk register. In March 2022, Audit Scotland published at report Addressing climate change in Scotland | Audit Scotland (audit-scotland.gov.uk) drawing together the key themes identified across a range of published recommendations for Scotland and set out a high level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. We have summarised each of these key themes below, along with the suggested actions. We recommend that the Council carry out a self assessment against each of these points and develop an action plan to help focus on where further work is required. The BVAR also made reference to the challenges faced by Shetland Islands Council and its partners in terms of climate change and noted that it was working to develop two net zero route maps for the Council's estate and services and for Shetland as a whole. It also noted that the Council is working well with its partners to explore renewable energy opportunities through the ORION (Opportunity for Renewable Integration with Offshore Networks) projects.

Key themes	Suggested actions
Leadership – public bodies should make responding to climate change a core value and key outcome.	Public bodies can lead the way through developing procurement framework and contracts with economic, social and environmental requirements and with developing and maintaining standards and regulations.
Governance – climate change plans need to have robust governance arrangements to ensure a clear approach to delivery which allows collaboration and integration and can address and resolve any conflicts between partners, priorities and policies. It also needs to support fast-paced changes to plans, technologies and policies.	Good governance ensures accountability and transparency. It requires: • Monitoring, evaluating, reporting and verifying plans with clear timeframes; • Feedback mechanisms to review how things work as they are being implemented; • Processes for how projects will be upscaled and alternatives proposed where projects are not delivering what is expected; and • Effective scrutiny, oversight and challenge by elected members and non-executive board members.

Emerging issues (continued)

Climate change (continued)

Key themes	Suggested actions
Community empowerment to develop local solutions – actions to address climate change could potentially have an unequal impact on some people and communities. Climate change should become a priority issue that public bodies and their partners engage with local communities on.	Incorporating climate resilience and net zero targets into existing local plans and initiatives, such as city and regional deals and participatory budgeting, will make it easier for public bodies to work with communities and support faster progress,
Behavioural change – clearer information on the environmental impact of people's choices is needed for all of us to make informed decisions, particularly around sustainable diet, waste and travel.	There is a need for clear plans to influence societal change and help people adapt to climate change and smooth transition to net zero.. Greener options need to be attractive in terms of quality and affordability. Public bodies should make efforts to sustain some of the changes in behaviours beneficial to emission reduction that emerged in the COVID-19 lockdowns, such as remote working, replacing business travel with videoconferencing and online collaboration, and broader lifestyle choices including more walking and cycling.
Alignment of policy and spend – the type of leadership outlined on the previous page, would support the alignment of all policy and funding decisions. However, the challenge is significant.	**Policy alignment** – all policies should be reviewed individually and holistically to identify conflicts or incoherence with climate change ambitions and be amended as required. The complex landscape, and sheer number of strategies and plans that will play a part in delivering net zero and reducing the impacts of climate change makes this challenge harder at all levels of public sector. **Alignment of spend** – budgets and spend (both capital and revenue) should align with climate change ambitions. Public bodies will also need to ensure all future funding and investment decisions are based on their contribution to climate change ambitions and an inclusive, net zero carbon economy.

Emerging issues (continued)

Climate change (continued)

Key themes	Suggested actions
Robust planning for net zero, mitigation and adaption – robust cross-sector plans are essential, but experts recognise the challenge is colossal.	As urgent action is required, climate change plans need innovative thinking to address the inherent tensions between doing things thoroughly and doing things quickly. Lessons could be learnt from the public sector's response to the COVID-19 pandemic. Climate change planning needs to happen collaboratively, with a range of private and public sector bodies, third sector organisations, and communities, as well as simultaneously in different geographical areas. Climate experts should also be involved in planning. Plans should provide clarity in delivery and implementation with sufficient detail and clear timelines.

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 Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Accounts;
- Our internal control observations; and
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the Annual Accounts.

We described the scope of our work in our audit plan.

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

Use of this report

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.

Pat Kenny

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 15 November 2022

Sector developments

Local government in Scotland
Financial overview 2020/21

Background and overview

The Accounts Commission published its Local government in Scotland financial overview 2020/21 in March 2022. This covers the first full year that makes clear the impact of COVID-19. It also looks ahead to the medium-to-longer term financial outlooks for councils.

Key messages

Local government finances 2020/21

- The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.
- When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.
- The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.
- Councils’ income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.
- In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which was unspent at 31 March 2021.
- Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

Medium and longer-term outlook for local government finances

- Scottish Government capital funding to councils is expected to fall again in 2021/22.
- Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.
- Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

Local government in Scotland (continued)

Financial overview 2020/21 (continued)

Key observations	Audit Scotland Recommendations
Reserves – Most of the increase in the general fund is committed to Covid-19 recovery.	Elements of Covid-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should be clearly identified.
Financial management and transparency - Management commentaries in councils accounts have improved, but many are still not complying with previous recommendations on transparency	We recommend again that councils review and improve how they comply with these key expectations of transparency, in particular: • Is the outturn against budget position for the year clearly shown, and are the reasons for significant variances obvious? • Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements, and are major differences explained? • Is progress against agreed savings reported?
Budgets for 2021/22 - The uncertainty over the funding position for Covid-19 at the end of 2020/21 led to issues in budget setting and many councils established Covid-19 budgets in autumn 2021	We expect councils to agree spending plans and timescales for Covid-19 recovery reserves with the relevant decision making committee.
Medium and long-term financial planning - Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.	All councils will now need to revise medium-term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions. Councils should also review longer-term planning as Covid-19 uncertainty diminishes.

Next steps
The Council should consider each of the above recommendations and incorporate into plans where not already considered. The full report is available through the following link: [Local government in Scotland: Financial overview 2020/21 | Audit Scotland (audit-scotland.gov.uk)]()

The future of infrastructure: A survey of infrastructure trends

Deloitte insights

Background and overview

A new economic reality calls for infrastructure reimagined: more digital, more sustainable, more equitable. From broadband to bike lane's, Deloitte centre for government insight has asked experts how infrastructure will change. Some of the key highlights are summarised below, with the full article available here [Future of infrastructure | Deloitte Insights]

The pandemic is shifting demand

- Many respondents expect more work from home, more broadband, and more transportation options. However, only 4% believe that there will be fewer people living in cities.

Cybersecurity a top concern

- As government shift to more digital infrastructure, cyber risk becomes a concern. About 76% of global infrastructure leaders expect greater focus on data security over the next three years.

Technology will reshape infrastructure

- Many respondents expect artificial intelligence, cloud computing, and cybersecurity to reshape infrastructure – a clear signal that infrastructure is going digital.

Green infrastructure is in demand

- About 60% of respondents globally said that they plan to invest in urban places for walking, cycling, socialising and eating.

Infrastructure's biggest obstacle? Talent

- Interestingly, respondents see talent shortage as a bigger obstacle to executing infrastructure projects than budget constraints or regulatory barriers.

Appendices

Audit Adjustments

Corrected adjustments

The following adjustments have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £	Debit/(Credit) in Net Assets £	Debit/(Credit) Reserves £	Debit/(Credit) in Income £	If applicable, control deficiency identified
Adjustments identified in current year					
[1] PPE – Assets not valued in year	(2,896,936)	7,440,014	(7,440,014)		Page 21
[2] General Fund/ HRA – Pension adjustment		-	-		
Total	**(2,896,936**	**7,440,014**	**(7,440,014)**		Page 21

[1] As discussed on page 14, an adjustment has been made to reflect the change in build costs for those assets not subject to full revaluation in the year.

[2] An adjustment was required to correctly split the "reversal of items relating to retirement benefit charged to the CIES" between the General Fund and HRA. This resulted in the HRA being increased by £673,000 and the General Fund reduced by the same amount, with an overall nil impact.

Unadjusted and disclosure adjustments

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £	Debit/(Credit) in Net Assets £	Debit/(Credit) Reserves £	Debit/(Credit) in Income £	If applicable, control deficiency identified
Adjustments identified in current year					
[2] Pensions – Goodwin adjustment		(800,000)	800,000		N/A
[3] Pensions – Experienced Gain		(1,190,000)	1,190,000		N/A
Total		**(1,990,000)**	**1,990,000**		

[2] As discussed on page 17, no allowance has been made for the Goodwin ruling. A central estimate of 0.1% would infer an estimated cost of around £0.8m.

[3] As discussed on page 17, our pension specialists have calculated an experienced gain of £1.190m as a result of the inflationary income over and above the gain recorded of £234k.

Action Plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	*PPE Valuations*	The property valuer should introduce as part of the annual valuations, similar to the exercise carried out as part of the audit to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.	This will be incorporated in the Valuation Terms of Engagement sent to the Councils internal valuer as part of the year end process.	Team Leader Asset and Properties	31 March 2023	Medium
2	*National Fraud Initiative*	The Council should assess whether the team currently assigned responsibility for administering the NFI scheme locally have sufficient capacity and authority for seeking action across the whole of the Council.	Internal Audit are now taking on the role of scrutiny of the NFI scheme with the support of the Finance and other services across the Council	Executive Manager – Finance, and Audit Glasgow	31 March 2023	Low

Action Plan (continued)

We have followed up the recommendations made in our previous years audits. We are pleased to note that three recommendations have been fully implemented, four partially implemented and two not yet implemented.

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
1. Financial Management The Council should enhance the level of detail given within the quarterly FMRs to provide clarity on revisions made to the budget.	FMRs will be updated to include further narrative to explain reasons behind changes made to approved budgets throughout the year. ***Responsible Person:*** Executive Manager - Finance ***Target Date***: 30/09/2021	High	Financial Monitoring Reports have been amended to include further detail around the reasons behind adjustments to budgets that have been made during the year. This detail is set out in a separate appendix to the quarterly monitoring reports presented to the Policy & Resources Committee and Full Council ***Fully implemented***
2. Financial Sustainability The Council should develop a formal budget-setting policy and process, ensuring this meets the expectations of Members, management and the community, and is reflective of best practice by design.	The Council's budget-setting process, and the principles by which budgets are developed, are contained in the Council's Financial Regulations. We do not think a separate budget-setting policy is required in addition to the existing provisions contained in the Council's constitution, however, we recognise that improvements can be made to the process of developing budgets each year, which incorporate any lessons learnt from the setting of the prior year's budget. We will issue clearer communication with regard to budget-setting activities so that all stakeholders are well sighted on required inputs and expectations of outputs. ***Responsible Person:*** Executive Manager – Finance ***Target Date***: 31/10/2021	Medium	Report presented in November 2021 which set out the Council's approach to setting the 2022/23 Budget. However, we acknowledge there is further work to do in this area following the Council's Best Value Assurance Review (BVAR) published in August 2022. The Council intends to publish an Improvement Plan in response to the BVAR. Further improvements, particularly around public engagement and consultation around proposed budgets, are being developed as part of the planned Improvement Plan, which is expected to be presented and published before Christmas 2022. ***Partially implemented*** *Superseded with further actions arising from BVAR as discussed on page 31.*

Action Plan (continued)

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
3. Value for Money The Council should undertake a post-project evaluation of business cases that have been approved and seen through to completion. A post-project evaluation should set out where significant divergences have occurred from the initial business case and seek to determine whether the project has delivered its intended outcomes and benefits. In its evaluation, the Council should also identify the reasons for any variances, whether these variances were foreseeable, and how any lessons learnt can be incorporated into business cases presented in the future and in the implementation of the new Change Programme.	We agree that post-project evaluation of business cases are invaluable in establishing whether Best Value can be demonstrated. The outcome of the first of these evaluations will be available by the end of December 2021. ***Responsible Person:*** Executive Manager – Assets, Commissioning & Procurement ***Target Date***: 31/12/2021	High	The Council's 'Gateway Process for the Management of Capital Projects', approved in June 2016, includes an evaluation stage as the final gateway. The most recent evaluation of an approved business case that has been implemented was presented to Policy & Resources Committee on 22 November. Plans are in place to evaluate the implementation of recently completed projects, such as the College Merger and the relocation of Library Services and the move to a new Council Chamber in St Ringans. ***Partially implemented*** ***Revised target date:*** 31 March 2023

Action Plan (continued)

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
4. Governance & Transparency 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.	A report providing a detailed update on Member Development work was considered by CMT on 9 February 2021 Since the last update to this Action Plan a further three PDP sessions have been held with Members - which brings the total to 12. A development session was organised on 'Building Better Business Cases' reflecting on outputs from the PDP sessions held. The Member Development policy is planned to be presented to the Policy and Resource Committee in June. ***Responsible Person:*** Executive Manager – Executive Services ***Target Date***: 31/03/2021 (revised to 31/12/2022)	High	Member Development Policy was approved in November 2021. A comprehensive induction programme for new and returning elected members was organised following the local elections in May 2022. Mandatory training for has been completed by the relevant members on specific committees, such as Licensing Board and Planning Committee). Further learning and development opportunities are being highlighted to members as part of the ongoing and continuous learning approach advocated by the policy. ***Fully implemented***

Action Plan (continued)

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
5. ***Governance & Transparency*** 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. The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.	The Council has not carried out self-assessments or developed a self-assessment programme. ***Responsible Person:*** Executive Manager – Governance and Law ***Target Date***: 31/03/2021 (revised to 31/03/2022)	High	This has been delayed due to resourcing constraints attributed to COVID-19, prioritising other workstreams (such as facilitating move to a new Council Chamber) and conducting local and parliamentary elections. The Council has committed to review and amend its Constitution by March 2023, ready for implementation by no later than 31 March 2023. ***Not implemented*** ***Revised target date***: 31/03/2023

Action Plan (continued)

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
6. Value for Money 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.	Performance reports have been presented to the Council and its Committees. The new website is live and is being populated by departments across the Council. Colleagues from the Council's Change management service and the NHS PMO function are working together to complete the implementation of the Performance Management Framework. Performance indicators for reporting against the new corporate plan "Our Ambition" are being developed.. ***Responsible Person:*** Director – Corporate Services ***Target Date***: 31/03/2021 (revised to 31/03/2022)	High	Directorates present quarterly performance reports to their functional committees. However, the Council acknowledges there is more work to do in this area and is currently working to address weaknesses identified in its performance management framework following an internal audit review in November 2021. A Policy Procedures and Guidance document to support the Performance Management Framework has been drafted which reflects the required improvements expected to be made to our approach to performance management. A draft list of "Our Ambition" indicators and targets have been drafted and reported to the Policy and Resources Committee in November 2022. Progress against implementing the recommendations contained in the internal audit report will be followed up by Audit Committee in Q3 and Q4 of 2022/23 and any changes to the Performance Management Framework will require approval from Elected Members. ***Partially implemented*** ***(****superseded with further actions arising from Internal Audit work, as referenced in BVAR and discussed on page 36)*

Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
7. Governance and Transparency The Council 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.	The financial support update report will be repeated on an annual basis to provide Members with updates on the support available through Grants and Commercial Investments delegated to officers. Scotland Excel attended CMT on 19 January 2021. Actions from the Audit Report will be taken forward alongside a review working with Scotland Excel. ***Responsible Person:*** Director – Development, Director – Corporate Services ***Target Date***: 31/03/2021 (revised to 31/03/2022)	Medium	Further reports have been presented to Members summarising the financial support provided to organisations during 2020/21. The Council is currently working to refine reporting to include information about the achievement of intended outcomes, so that assurance can be taken that financial support is being used appropriately to deliver agreed activities and outcomes. The Council will also include Following the Public Pound assurance in the next update of the internal audit plan for 2023/24. ***Partially implemented*** ***Revised target date:*** 31/03/2023

Action Plan (continued)

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
8. Value for Money 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.	The LGBF report timing will be incorporated into reporting when the 2019/20 LGBF figures are available. The existing available LGBF data was used to inform improvement ***Responsible Person:,*** Director – Corporate Services ***Target Date***: 31/03/2021 (revised to 31/03/2022)	Medium	The Council adopted a series of LGBF indicators in March 2022, to help facilitate the setting of targets and subsequent measurement of performance indicators against Our Ambition. ***Fully implemented***

Action Plan (continued)

Recommendation	2020/21 Management Response	Priority	Management update 2021/22
9. Financial sustainability 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. 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.	This recommendation is still in progress and is being considered as part of budget setting, the Annual Investment Plan and Annual Investment & Treasury Strategy. ***Responsible Person:,*** Executive Manager - Finance ***Target Date***: 31/03/2021 (revised to 31/03/2022)	Low	This recommendation is still being progressed, particularly in light of the Accounts Commission's findings following the Council's Best Value Assurance Review. The Council's current Investment Strategy is due to be reviewed by August 2023 following approval in 2018 and provides the opportunity to set clearer expectations on the use of reserves, and minimum reserve balances. ***Not Implemented*** ***Revised target date:*** 31/08/2023

Our Other Responsibilities Explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

As auditor, we obtain reasonable, but not absolute, assurance that the Annual Accounts as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the Annual Accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in relation to recognition of COVID-19 related income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the Annual Accounts.

Deloitte view

No issues have been identified from our audit work.

Independence and Fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and and our objectivity is not compromised.
Fees	The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £216,916, as analysed below:

	£
Auditor remuneration	150,480
Audit Scotland fixed charges:	
Pooled costs	15,680
Contribution to AS costs	8,030
Contribution to PABV	50,250
Total proposed fee	**216,916**

In addition to the above, the audit fee for the charitable trusts audit is £400.

No non-audit services fees have been charged for the period.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.