

Shetland Islands Council

2024/25 Annual Audit Report



Prepared for Shetland Islands Council and the Controller of Audit
December 2025

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Key messages

Audit of the annual accounts

- 1 All audit opinions stated that the annual accounts were free from material misstatement.

Wider scope audit

- 2 The council's budget setting and financial management arrangements operated effectively during 2024/25.
- 3 The council continues to rely on reserves to balance its annual budget, with the gap of £20.9 million in 2025/26 general fund budget being met from reserves.
- 4 The council's updated medium-term financial plan shows a projected cumulative budget gap of £134.3 million over 4 years.
- 5 Without further action on long-term financial sustainability, the council risks depleting reserves through "unsustainable" draws and may also be unable to borrow for future investment in assets and infrastructure, which could limit the aspirations set out in *Our Ambition*.
- 6 The council has an established vision, strategy and priorities based on challenges facing the islands. A performance management framework is in place, with a suite of core performance indicators linked to delivery of the council's corporate plan priorities.

Best Value audit

- 7 The council has effective and appropriate arrangements in place for securing Best Value.
- 8 The Best Value thematic report on service transformation stated that the council's Change Programme includes clear themes and projects and is aligned with the strategic plan but progress to develop detailed project plans has been slow. Also, there is limited capacity within the council to progress transformation.

- 9** The council has 56% of indicators in the top two quartiles of the Local Government Benchmarking Framework indicators for 2023/24, a slight increase from the prior year.
 - 10** The council's performance management framework supports effective performance reporting and scrutiny of performance.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Shetland Islands Council's annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to Shetland Islands Council, hereafter referred to as 'the council', and the Controller of Audit and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. Rachel Browne, of Audit Scotland, has been appointed as external auditor of the council for the period from 2023/24 until 2026/27. As reported in the Annual Audit Plan, Rachel Browne as engagement lead and the audit team are independent of the body in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the body, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the council and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts and concluding on the council's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the council from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The council's responsibilities

10. The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the council that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the council and Audit Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Audit of the annual accounts

Main judgements

All audit opinions stated that the annual accounts were free from material misstatement.

Audit opinions on the annual accounts

12. The council's annual accounts were approved by the council on 10 December 2025 and certified by the appointed auditor on the same day. The Independent Auditor's Report is included in the council's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

13. The unaudited annual accounts and all working papers were received on 30 June 2025 in accordance with the agreed audit timetable. Working papers received were of a good quality.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £274,200. We have charged an additional fee of £2,045 for the additional work on assets valuations (see [Exhibit 2](#) item 1). As a result, the total audit fee charged for the 2024/25 audit is £276,245.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

16. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the council were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts. Materiality levels were updated, and these are set out in [Exhibit 1](#).

Exhibit 1
2024/25 Materiality levels for the council

Materiality	Amount
Materiality – set at 2% of gross expenditure	£5.7 million
Performance materiality – set at 60% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£3.420 million
Reporting threshold – set at 5% of materiality. All misstatements greater than the threshold will be reported.	£0.285 million

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the council is the Audit Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor’s professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p>1 - Valuation of Other Land and Buildings</p> <p>The Code of Practice on Local Authority Accounting (the Code) requires that the carrying amount of an item of property, plant and equipment should reflect its current value.</p> <p>In order to meet Code requirements, the council operates a five-year programme of rolling valuations for land and buildings assets. For 2024/25, these valuations were undertaken by an external valuer.</p> <p>We reviewed a sample of assets revalued in year and identified an instance where the floor area used by the valuer in their calculation did not agree to data they had been provided with. An instance was also identified where the percentage split between structure and fixtures had been input incorrectly. These related to the valuation calculations for Anderson High School and the Energy Recovery Plant. The total overvaluation of these assets was £2.462 million. Correcting the error would result in a decrease in asset value in the balance sheet of £2.462 million, with a corresponding decrease in the revaluation reserve.</p>	<p>The valuer reviewed the data inputs used in other revaluations to confirm no other errors.</p> <p>An additional sample of asset revaluations was reviewed by audit; no further issues were identified.</p> <p>As the overstatement in valuation is below materiality, management have chosen not to amend the accounts for this.</p> <p>We have included a recommendation at Appendix 1 to address the issue identified (Recommendation 1).</p>
<p>2 - Valuation of council dwellings</p> <p>In accordance with the Code of Practice on Local Authority Accounting, the basis for valuation of dwellings is existing use value for social housing (EUV-SH). As part of the council's rolling 5-year valuation programme for property, the council's housing stock was last revalued in 2023/24.</p> <p>To ensure that the carrying amount of dwellings reflected the current value, the council considered the advice of the professional valuer and undertook a review of the market conditions which impact on the EUV-SH. This concluded that there was no material change in the valuation. This was reflected in the unaudited accounts with the total net value of dwellings of £74 million included.</p>	<p>We reviewed the evidence used by the council to form this judgement and other publicly available market data and were satisfied that there was no material movement in the overall valuation.</p>
<p>3 - Implementation of IFRS16 accounting requirements for service concession arrangements and other leases</p> <p>The implementation of International Financial Reporting Standard 16: Leases (IFRS16) is mandatory for local government bodies from 2024/25. Under IFRS16, a lessee is required to recognise right-of-use (RoU) assets and associated lease liabilities on the Balance Sheet. IFRS16 also requires a service concession lease liability to be remeasured to include</p>	<p>Our audit review confirmed the disclosures and adjustments made in the accounts were in line with the accounting standard and guidance.</p>

Significant findings and key audit matters	Outcome
<p>indexation changes over the period of the lease. Previously such charges were treated as expenses in the year.</p> <p>Management recognised several RoU assets during 2024/25, mainly care homes owned by the Shetland Charitable Trust and leases for seabed rentals from the Crown Estate.</p> <p>As part of our audit work, we considered the arrangements used by management to identify potential lease arrangements and concluded that these were appropriate.</p> <p>At 1 April 2024, the council recognised RoU assets of £13.68 million with a corresponding increase to unusable reserves of £9.34 million (for assets revalued at transition, and non-commercial leases treated as donated assets), lease liabilities of £4.26 million, and a decrease to current debtors of £0.08 million for adjusted prepaid lease payments.</p> <p>We reviewed the adjustments and disclosures made by the council in the unaudited accounts.</p>	
<p>4 – Other areas of estimation uncertainty</p> <p>In addition to the areas noted above, the financial statements include other areas of estimation including the valuation of:</p> <ul style="list-style-type: none">• pensions assets and liabilities• fishing quotas• long term investments. <p>As part of our audit procedures, we considered the arrangements management has in place around making these accounting estimates, including the assumptions and data used in making the estimates, and the use of management experts.</p>	<p>Our audit work concluded there were no issues with the selection or application of methods, assumptions and data used to make the accounting estimates, and these were considered reasonable. There was no evidence of management bias in making the accounting estimates.</p>

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the council’s accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the council was assessed as part of the audit. These were considered to be appropriate to the circumstances of the council, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in a number of areas in the council's financial statements, including the valuation of land and buildings assets and the valuation of the pension liability. Audit work considered the process management of the council has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 3](#).

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality and extent of disclosures was considered appropriate, with more detail provided in disclosures around areas of greater sensitivity such as financial instruments and valuation of the pension liability.

Significant matters discussed with management

27. All significant matters identified during the audit and discussed with the council's management have been reported in the Annual Audit Report.

Audit adjustments

28. There were no adjustments above our reporting threshold made to the financial statements presented for audit.

Unadjusted misstatements

29. As noted in [Exhibit 2](#), management decided not to process an audit adjustment for the identified £2.462 million misstatement relating to land and buildings asset valuations. The value, nature, and circumstances of the uncorrected misstatement were considered by the audit team, and it was concluded it was not material to the financial statements. As a result, it did not have any impact on the audit opinions given in the Independent Auditor's Report.

30. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with the Audit Committee as those

charged with governance, considering advice from senior officers, and materiality.

Whole of Government Accounts return

31. The council is part of the Whole of Government Accounts (WGA) boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. The National Audit Office (NAO) is the auditor for the WGA and issues instructions outlining audit procedures auditors must follow when auditing a WGA return. The threshold for requiring audit procedures to be performed on the WGA return was set at £2 billion. The council was below this threshold and therefore only limited audit procedures were required, and submission of an assurance statement to the NAO. No significant issues were identified, and this was reflected in the assurance statement submitted to the NAO.

Significant risks of material misstatement identified in the Annual Audit Plan

32. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 3](#).

Exhibit 3**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. <p>Conclusion: no evidence of fraud caused by management override of controls.</p>
<p>Valuation of other land and buildings</p> <p>Shetland Islands Council held £252.9 million of other</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>land and buildings at 31 March 2024.</p> <p>The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p> <p>Other land and buildings are revalued on a five-year rolling basis. Values may change year-on-year, and it is important that the council ensures the financial statements accurately reflect the value of other land and buildings.</p>	<ul style="list-style-type: none"> • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required. 	<p>over the valuation process were appropriate.</p> <ul style="list-style-type: none"> • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management has an appropriate level of oversight of the valuation process. • Isolated errors were identified in the data and assumptions used in the 2024/25 valuation process; however, these did not result in a material error. Refer to issue 1 in Exhibit 2. • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end. <p>Conclusion: the valuation of other land and buildings is not materially misstated.</p>
<p>Valuation of council dwellings</p> <p>Shetland Islands Council held £75.0 million of council dwellings at 31 March 2024.</p> <p>The valuations of council dwellings are significant estimates. Valuations are based on a beacon approach and specialist assumptions including discount factors, changes in</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review management's assessment that the value in the balance sheet of assets not subject to a formal valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end.

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>which can result in material changes to valuations.</p> <p>Council dwellings were last revalued at 31 March 2024. Values may change year on year, and it is important that the council ensures the financial statements accurately reflect the value of dwellings.</p>		<p>Conclusion: the valuation of council dwellings is not materially misstated.</p>

Source: Audit Scotland

Prior year recommendations

33. The council has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in [Appendix 1](#).

Wider scope audit

Conclusion

The council's budget setting and financial management arrangements operated effectively during 2024/25.

The council continues to rely on reserves to balance its annual budget, with the gap of £20.9 million in 2025/26 general fund budget being met from reserves.

The council's updated medium-term financial plan shows a projected cumulative budget gap of £134.3 million over 4 years.

Without further action on long-term financial sustainability, the council risks depleting reserves through "unsustainable" draws and may also be unable to borrow for future investment in assets and infrastructure, which could limit the aspirations set out in *Our Ambition*.

The council has an established vision, strategy and priorities based on challenges facing the islands. A performance management framework is in place, with a suite of core performance indicators linked to delivery of the council's corporate plan priorities.

Audit approach to wider scope

Wider scope

34. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

35. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of these is reported in this chapter.

Significant wider scope risk

36. Audit work has been performed in response to the significant wider scope risk of unsustainable use of reserves, identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#) and was informed by work on financial management and financial sustainability arrangements.

Exhibit 4

Significant wider scope risk

Significant risk	Planned audit response	Outcome of audit work
<p>Unsustainable use of reserves to balance the budget</p> <p>The council continues to use reserves to balance its annual budget. The agreed budget for 2025/26 includes an “unsustainable” draw on reserves of £20.9 million to achieve balance.</p> <p>The council sets a “sustainable” amount that can be drawn from reserves, based on forecasting assumptions for investment returns and harbour income in the medium-term financial plan. Use of reserves above that level is considered an “unsustainable” draw on reserves.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> Review medium to long term financial planning. Review trends and projections for movements in reserves, including the estimated future funding gap. Assess the sustainability of using reserves to balance the budget. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> The unsustainable draw on reserves in 2024/25 was £11.9 million, £10.8 million less than budgeted. Projected outturn for 2025/26 at Q1 includes an “unsustainable” draw of £32.3 million, an increase of £11.4 million from the original budget, and £20.4 million from the actual draw in 2024/25. An updated Medium-Term Financial Plan (MTFP) was presented to the council on 6 October 2025 to inform the budget setting process for 2026/27. This identified a cumulative funding gap of £134.3 million by 2029/30. Work is ongoing to address actions in the MTFP, however some areas have still to be progressed. Conclusion: Further progress is required on actions contained within the MTFP to address the long-term financial sustainability of the council.

Source: Audit Scotland

Conclusions on wider scope audit

Financial Management

37. The audit work performed on the arrangements the council has in place for securing sound financial management found that these were effective and appropriate, apart from the control issues noted in paragraphs [42.](#) and [43.](#) below. This judgement is evidenced by the council:

- having a system of internal control in place that is operating effectively and has no significant weaknesses or deficiencies.
- having clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place that ensure effective financial management.
- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- having suitably qualified and experienced staff leading the finance function, which has sufficient skills, capacity, and capability to effectively fulfil its role.
- having effective measures in place for the scrutiny of arrangements that support sound financial management, and effective scrutiny and challenge provided by the Audit Committee.
- having an experienced Internal Audit service, provided by Audit Glasgow, who have access to an extensive skillset to support a wide range of reviews. This allowed the Chief Internal Auditor to provide their opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the council's framework of governance, risk management and control for the year to 31 March 2025.

38. The council approved a £168.8 million revenue budget for 2024/25 in March 2024. It included £23 million of “sustainable” use of reserves: £15.4 million from projected investment income and £7.6 million from harbour trading income. To achieve financial balance, the remaining £22.8 million gap was to be met through an “unsustainable” draw on reserves.

39. General Fund net revenue expenditure to 31 March 2025 was £163.6 million, £4.1 million below the revised budget of £167.7 million. After carrying forward £0.5 million in ring-fenced funding, the net underspend was £3.6 million, mainly due to unspent contingency funds from vacant posts.

40. The council spent £22.3 million on capital projects in 2024/25, which was £4.8 million less than the £27.1 million budget. This was mainly due to

delays caused by contractor shortages, supply problems, and uncertainty around rising costs.

41. Overall, the council used less money from its reserves than expected in 2024/25, with a net draw of £34.8 million instead of the £38.1 million per revised budget. However, this still resulted in an unsustainable draw on reserves of £11.9 million.

Internal control weaknesses were identified

42. Our review of the housing rents system found some of the established key controls were not operating effectively during the financial year due to resource issues:

- The monthly three-way reconciliation of Housing Benefits payments for private tenants (between Capita, Civica and the general ledger system) wasn't completed on three occasions during the year, and one other reconciliation carried out late.
- The quarterly reconciliation between housing stock codes on the General Ledger and the Capita tenancy account records was not done in the first three quarters of the year, as the staff member responsible was still learning the process.

Recommendation 2

Housing rents reconciliations

Housing rents reconciliations should be performed on a regular and timely basis to ensure prompt resolution of any identified discrepancies.

43. Staffing challenges during the year led to ongoing issues with controls around aged debt reporting and monitoring on the accounts receivable system. For several months, aged debt reports were not produced, and those that were generated were not fully reviewed. In some cases, there was no evidence of any review.

Recommendation 3

Aged debt reports

Aged debt reports should be produced, reviewed and actioned on a regular basis to ensure that outstanding amounts are appropriately followed up.

44. Despite these controls not operating as intended throughout the year, additional audit work was not required as the council provided the year-

end housing rents reconciliation and the year-end aged debt report to support our audit of the annual accounts.

Financial Sustainability

45. The audit work performed on the arrangements the council has in place for securing financial sustainability found that these were generally effective and appropriate. This judgement is evidenced as set out in the remainder of this section.

46. The council remains in a strong reserves position relative to other authorities, but usable reserves fell to £373.7 million at 31 March 2025 from £403.6 million the previous year, in part due to reliance on reserves to balance the budget. Excluding unrealised investment gains of £120.723 million, the general fund balance dropped to £113.862 million, with only £48.5 million unearmarked (down from £68.1 million in prior year).

47. The 2025/26 budget was approved by the council in February 2025 and was informed by a public consultation on council tax levels and options for services. The budget includes £178.4 million in planned revenue spending and a 10% council tax increase. The £43.9 million deficit is to be funded from reserves: £15.4 million from investment returns, £7.5 million from harbour income, and £21.8 million from an “unsustainable” general fund draw.

48. The latest budget monitoring projects a £5.1 million revenue overspend and a £3.6 million capital underspend for 2025/26. Most of the revenue overspend relates to the Harbour Account, with a £3.4 million drop in net income, mainly due to £3.1 million from reduced tanker activity at Sullom Voe and £0.4 million additional costs from an unbudgeted drydocking. The capital underspend mainly reflects £3.3 million of slippage in Housing Revenue Account projects at Stendaal, Harlsdale, and Brevik Cottages.

49. The lower projected harbour income reduces the available sustainable reserve draw by £2.7 million, but increases the unsustainable draw required by £4.7 million.

50. The council produces a Medium-Term Financial Plan (MTFP) each year to support budget planning. It outlines expected financial pressures over the next four years and uses scenario modelling to assess potential impacts:

- An optimistic, upside scenario
- A central, most likely scenario; and
- A pessimistic, downside scenario.

51. The updated Medium-Term Financial Plan (2025–30), presented to the council in October 2025, includes narrative around the council’s

investments and reserves position in the context of ongoing financial sustainability. The plan projects a cumulative deficit of £134.3 million by 2029/30 under the central scenario assumptions. This is a sharp increase from the previous 4 year forecast of £83.1 million by 2028/29, mainly due to higher-than-expected inflation and slower income growth.

52. The plan highlights the significant financial challenges the council faces over the next four years and recognises that even under the most optimistic scenario, reserves will continue to be depleted unless action is taken to prioritise activities and develop tangible plans that lead to sustainable change. Ten key actions are identified to support the achievement of the MTFP including:

- Developing a 5-year plan for harbour income and planned expenditure, alongside a forecast for wider oil and gas related income
- In depth reviews of fees and charges to establish a fee recovery or service subsidy position
- Developing agreed central cost allocation framework for external grant funded projects
- Ensuring staffing plans are developed to support current and future service delivery requirements
- Improving links between the MTFP and strategic plans such as the asset investment plan, *Our Ambition* and the climate change strategy.
- Developing clear, SMART objectives to ensure delivery.

53. While progress has been made in taking forward some actions, such as staffing plans and fees review, other areas are still to be developed. Without further action on long-term financial sustainability, the council risks depleting reserves through “unsustainable” draws and may also be unable to borrow for future investment in assets and infrastructure, which could limit the aspirations set out in *Our Ambition*, limiting its strategic ambitions.

Vision, Leadership and Governance

54. The audit work performed on the arrangements the council has in place around its Vision, Leadership and Governance found that these were generally effective and appropriate, with some scope for improvement noted in the following paragraphs. This judgement is evidenced by the council:

- having a corporate plan, *Our Ambition* in place, supported by service level operational plans, that clearly set out its vision, strategy, and priorities and reflect the pace and depth of improvement required to realise these in a sustainable manner.

- involving service users, delivery partners, and other stakeholders in the development of its vision, strategy, and priorities to ensure these align to their needs.
- having clear financial and performance reporting in place, both internally and externally, that is linked to its operational plans, and effective scrutiny and challenge of performance provided by the Audit Committee.
- having effective governance arrangements in place in general, as reflected in the Governance Statement included in the annual report and accounts.
- operating in an open and transparent manner.

55. The council continues to have a clear vision based on challenges facing the Islands. These are contained in *Our Ambition*, the council's corporate plan, which sets out the priorities that the council will work towards over the five-year period to 2026. *Our Ambition* is based on a vision of working together to create a positive, confident and sustainable future for Shetland, where the community's opportunities attract people of all ages to live, work, study and invest in Shetland.

56. Annual updates on delivery of *Our Ambition* are reported to the council, setting out key achievements and progress against targets. The updates are also published on the council's website.

Review of governance documents

57. The council's Standing Orders and sections 1 and 2 of the Scheme of Administration and Delegations have not been updated since 2016. The Employee Code of Conduct has not been updated since 2020. Failure to regularly review and update governance documents increases the risk of them becoming outdated and misaligned with current practices or legislative requirements.

Recommendation 4

Review of key governance documents

Key governance documents should be reviewed and updated on a regular basis to ensure that they are up to date and relevant.

Freedom of Information and Subject Access Requests

58. The Freedom of Information (Scotland) Act 2002 (FOISA) gives individuals the right to request non-personal information from Scottish public authorities, who must respond within 20 working dates. The UK General Data Protection Regulation (UK GDPR) and the Data Protection Act 2018 provide individuals the right to access their own personal data

held by an organisation. Responses must be provided within one calendar month.

59. Review of directorate performance reports identified mixed performance in responding to Freedom of Information requests within the statutory 20 working days timescale. It was also identified that many services are failing to respond to subject access requests on a timely basis. In the first six months of 2025/26, only 25% (3 out of 12) of subject access requests were responded to within one calendar month, however where a request is complex, the response period may be extended to up to three calendar months.

Recommendation 5

Freedom Of Information and Subject Access Requests

The council should review its processes for responding to FOI and subject access requests to ensure that responses are made within the statutory timescale.

Responding to climate change

60. In September 2025 the council approved the Shetland Climate Change Strategy and Implementation Plan. The Shetland Climate Change Strategy is a Shetland Partnership document that was collaboratively developed through the Shetland Climate Change Steering Group.

61. The Shetland Climate Change Strategy and Implementation Plan were developed through extensive stakeholder engagement across the sectors of Energy, Transport, Buildings, Waste and Resource Use, Business and Industry and Land.

62. The Shetland Climate Change Strategy aims to:

- Accelerate climate action
- Increase collaboration across organisations
- Increase efficiencies across organisations
- Reduce duplication of effort
- Stimulate increased investment
- Implement projects that improve social, economic and environmental benefits to the Shetland community

63. The Implementation Plan includes actions allocated across Shetland Partnership organisations to foster and enable collaborative working. An annual progress report will be produced and published. This will include a

progress update on the implementation plan and key performance indicators. The strategy and implementation plan will be reviewed in its entirety and updated in five-yearly cycles.

Use of resources to improve outcomes

64. Audit work on the council's arrangements for using resources to improve outcomes found them to be effective and appropriate. This conclusion is supported by the evidence outlined in the remainder of this section. Arrangements in place for performance reporting and scrutiny of performance contribute towards the council being able to secure Best Value.

65. Following the approval of revised performance management arrangements in June 2023, the council implemented a reporting framework and performance indicators aligned with its Corporate Plan priorities. The Performance Management Framework (2019–24) sets out requirements for integrating performance indicators into strategy and plan development, with quarterly reporting to councillors.

66. In March 2024, a streamlined set of 99 performance indicators was approved. These are monitored through the *Our Ambition* live interactive dashboard, which provides real-time performance data.

67. An Annual Performance Report for 2024 is also available on its website. Due to staffing shortages within the Communications team, the report is largely narrative in nature and lacks detailed performance data.

68. The council works collaboratively with the Shetland Partnership, which includes a broad range of partners and community organisations. The Partnership Plan (2018–2028) sets out a shared vision and priorities focused on reducing outcome inequalities across Shetland. The four key priorities are participation, people, place, and money. Progress is regularly reviewed, with the latest annual report published in September 2025, including updates on outcome indicators. Delivery is supported by the Shetland Partnership Delivery Plan (2023–28), which outlines key actions to achieve the shared priorities.

69. The council also supports the Shetland Islands with Small Populations Locality Plan, aimed at improving the lives of residents in Fair Isle, Fetlar, Foula, Papa Stour, and Skerries through collaborative working and helping them to influence decisions on services and the use of resources.

Best Value audit

Conclusion

The council has effective and appropriate arrangements in place for securing Best Value.

The Best Value thematic report on service transformation states that the council's Change Programme includes clear themes and projects and is aligned with the strategic plan but progress to develop detailed project plans has been slow. Also, there is limited capacity within the council to progress transformation.

The council has 56% of indicators in the top two quartiles of the Local Government Benchmarking Framework indicators for 2023/24, a slight increase from the prior year.

The council's performance management framework supports effective performance reporting and scrutiny of performance.

Audit approach to Best Value

70. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

71. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2024/25 is on service transformation and involves considering how the council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review are reported in a separate Management Report and summarised in this chapter.

Conclusions on Best Value

The council's arrangements and performance in meeting Best Value and community planning duties

72. The audit work performed on the arrangements the council has in place for securing Best Value and its community planning arrangements found these were effective and appropriate. This judgement is evidenced by:

- the council having well established and effective governance arrangements in place, with the Best Value being a key aspect of the governance arrangements
- the arrangements the council has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value
- progress the council is making to embed sustainability into corporate and operational plans and enhance reporting arrangements around sustainability.

Themes prescribed by the Accounts Commission

73. As previously outlined, the Accounts Commission reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties, with the thematic review for 2024/25 on the subject of service transformation. Conclusions and judgements on the council's approach to service transformation are outlined in a separate Management Report which is available on the Audit Scotland website. A summary of the conclusions and judgments made in the report is outlined below.

- The council's Change Programme includes clear themes and projects and is aligned with the strategic plan, *Our Ambition* 2021-26. However, progress to develop detailed project plans has been slow, with most projects still lacking these.
- The council holds significant reserves, with a General Fund balance of £234.7 million at 31 March 2025 (based on unaudited figures). It uses these to support spending on services, but the current level of reserves use (£43.9 million in 2025/26) is unsustainable.
- The local energy industry has been a key source of council income, and the council is exploring opportunities to sustain this income through the transition to green energy, as this is important for its long-term financial outlook. The council also anticipates longer-term financial benefits will be achieved from Change Programme projects, but these projects are not yet at the stage where the benefits can be articulated.

- There is limited staffing capacity within the council to progress transformation, at both the senior leadership and officer level. It has a small Programme Management Office which supports services with change projects.
- The council has established arrangements for reporting progress against its Change Programme projects to its Corporate Management Team, which operates as its Programme Management Office Sponsoring Group. Progress reports could be enhanced to include reporting against time, project costs and estimated benefits.
- The council reports progress to elected members via quarterly directorate performance reports. This reporting could also be enhanced to include progress against project costs and estimated benefits.
- The council has shown a willingness to work with partners across Shetland and beyond, but it now needs to increase the pace of this work. There is evidence of joint funding arrangements in place to support investment in Change Programme projects.
- The council has undertaken considerable engagement with its communities around its plans. The council now needs to ensure that it delivers on these plans for its communities.
- Project documentation includes consideration of impacts on vulnerable groups. Formal equality impact assessments are carried out at relevant stages of project development. As many projects are still in the early stages of development, there have been limited assessments available to review.
- There is currently a lack of success measures in place for Change Programme projects due to the stage that the projects are at.

74. The report also included 5 recommendations for improvement which are replicated in [Appendix 1](#) of this report along with the council's planned response, responsible officers and dates for implementation. We will report on the council's progress in implementing these actions as part of our 2025/26 audit.

Statutory performance information (SPI) and service performance

75. The Accounts Commission issued a [Statutory Performance Information Direction](#) which requires the council to report:

- its performance in improving services and progress against agreed desired outcomes, and

- a self-assessment and audit, scrutiny, and inspection body assessment of how it has responded to these assessments.

76. Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing statutory performance information in accordance with the Direction and report a conclusion in the Annual Audit Report.

77. Audit work assessed the arrangements the council has in place for preparing and publishing SPI, including how it has responded to assessments, and concluded the arrangements in place were effective and appropriate.

78. The Accounts Commission also requires auditors to report a summary of the information on service performance reported by the council. The council reports information on service performance on its website and through:

- an Annual Performance Report
- the [Local Government Benchmarking Framework](#) (LGBF)

79. The information reported is a combination of the LGBF indicators and other relevant indicators the council has developed to monitor progress against key strategic priorities. From review of the service performance information reported by the council, this was found to be sufficiently detailed to provide an assessment of progress the council is making against its strategic priorities and allow effective scrutiny of performance.

80. Overall, the council's service performance has improved compared to previous years and other councils. According to the latest data on the Local Government Benchmarking Framework (LGBF) website, 61% of the 100 indicators have improved since 2010/11, 5% stayed the same, and 34% got worse. The council's position compared to others has also improved, with 56% of indicators now in the top two quartiles, up from 48% in the base year.

81. The council performed less well than other councils in several areas, including:

- Cost per pupil (primary, secondary, and pre-school)
- Home care and residential care costs for people over 65
- Proportion of the highest-paid 5% of staff who are women
- Net cost of waste collection and recycling rates
- Costs of planning, building standards, trading standards, and environmental health
- All four indicators related to tackling climate change.

82. The council performed strongly compared to others in areas such as:

- Public satisfaction with schools, libraries, parks, museums, leisure facilities, and street cleaning
- School attendance and youth participation (ages 16–19)
- Condition of ‘A class’ roads and operational buildings
- Spending on local suppliers through procurement
- All five financial sustainability indicators.

83. The performance section of the council’s website contains a link to the Improvement Service’s Local Government Benchmarking Framework dashboard. This allows interested users to compare the council’s performance against other councils.

Progress against previous Best Value findings and recommendations

84. Best Value findings and recommendations have been made in previous years’ Annual Audit Reports, Management Reports on themes prescribed by the Accounts Commission, and Controller of Audit Reports on the body’s performance in meeting its Best Value duties.

85. Details of previous recommendations and progress the council is making against these can be seen in [Appendix 1](#). Overall, the council is making limited progress in implementing the previous recommendations made, with 2 of the 6 recommendations made being implemented to date, and progress being made with the remaining recommendations.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Valuation calculations Two errors were identified in the valuation calculations carried out by the external valuer. Risk – Incorrect calculations result in asset valuations being misstated in the financial statements.	The council should carry out checking of the valuation calculations carried out by the external valuer.	Management will review a sample of asset valuations undertaken in year by the valuer to obtain appropriate assurance on the quality of data. Responsible officer: Executive Manager - Finance Date: June 2026
2. Housing rents reconciliations For two of the key housing rents reconciliations, it was identified that the reconciliations were not carried out on several occasions. Risk – Without regular reconciliations, discrepancies may not be identified and resolved promptly.	Housing rents reconciliations should be performed on a regular and timely basis to ensure prompt resolution of any identified discrepancies.	Private tenant housing benefit balancing process has been added to Senior Benefits Officer monthly tasks. Quarterly rent code balancing will be completed by the Senior Revenues Officer. Quality assurance checks on processes will be undertaken by Team Leader - Revenue and Benefits. Responsible officer: Team Leader – Revenue and Benefits Date: March 2026
3. Aged debt reports Aged debt reports were not being produced and reviewed every month. Risk – Inadequate monitoring and actioning of aged debt reports increases the risk of	Aged debt reports should be produced and reviewed monthly to ensure that outstanding amounts are appropriately followed up.	Revised procedures will be introduced to ensure monitoring of the aged debt report is completed monthly, with updated noted. Quality assurance checks will be completed on the progress of monitoring.

non-collection of amounts owed.

Responsible officer:

Team Leader - Revenue and Benefits

Date:

March 2026

4. Review of governance documents

Audit review identified a number of core governance documents that had not been reviewed and updated since 2016.

Risk – Failure to regularly review and update governance documents increases the risk of them becoming outdated and misaligned with current practices or legislative requirements.

Key governance documents should be reviewed and updated on a regular basis to ensure that they are up to date and relevant.

A review of key governance documents is underway, and an update report will be presented to the Council meeting on 10 December 2025.

A Governance Working Group is to be established, which will oversee regular review and updating of governance documents going forward.

Responsible officer:

Executive Manager – Governance and Law

Date:

December 2025

5. Freedom Of Information and Subject Access Requests

Mixed performance in responding to FOI requests within the statutory 20 days was identified.

Governance and Law are currently not meeting the 30-day statutory timeframe for responding to subject access requests, although where a request is considered complex, the response period may be extended up to three calendar months.

Risk – Failing to meet statutory timescales could result in enforcement action including financial penalties.

The council should review its processes for responding to FOI and subject access requests to ensure that statutory deadlines are met.

FOI performance rates are regularly monitored and processes reviewed regularly within departments, with actions taken to improve on performance where required.

SAR response rates are being monitored by the ICO, but there are currently no outstanding SARs.

A review of wider information governance and records management, which will include a review of the FOI and SAR processes, will be reported to the Information Governance Board and CMT during Q4 2025/26.

Responsible officer:

Executive Manager – Governance and Law

Date:

March 2026

BV thematic 2024/25 - transformational change recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>BV1. Pace of Change Programme</p> <p>The council has a Change Programme linked to its 'Our Ambition' corporate plan for 2021-26. As of February 2025, the Change Programme comprised 21 projects within five overarching programmes. Progress with developing detailed project plans has been slow, with some projects still lacking these.</p> <p>Risk – Failure to deliver transformational changes will lead to further unsustainable service expenditure, eroding the council's reserves, or the services provided may not fit the future needs of Shetland's citizens.</p>	<p>The council needs to increase the pace of progress on its Change Programme.</p>	<p>RAG report will be amended to track project plan development, and key project dates.</p> <p>CMT will be able to make decisions on whether the pace of project progress is appropriate, and allocate additional resources including project management resources if required.</p> <p>The graduate programme is designed to increase the capacity and capability for project management across the Council however as this is still in its first year of operation it has not had the time to be embedded and drive the pace of projects this year.</p> <p>Chief Executive</p> <p>April 2026</p>
<p>BV2. Deliverability of the Change Programme</p> <p>Given the lack of progress in developing detailed plans for a significant number of projects in its Change Programme, there is a risk that many projects will not be commenced within the timescales of the current Corporate Plan (2021–26), which the Change Programme was initially intended to support. The council needs to increase the pace of progress. If the council considers that it cannot progress all projects within its Change Programme in the short- to medium-term, it will need to prioritise specific projects and focus resources towards these.</p> <p>Risk – Ineffective delivery of Change Programme projects impacts the long-term</p>	<p>In terms of its Change Programme, the council should ensure that it is clear about what it is able to deliver within the resources it has available, and to what timescale. In doing so, it may need to prioritise certain projects and focus resources on taking these forward.</p>	<p>RAG report will be separated into Short-Term (current Corporate Plan), Medium-Term (current and next Corporate Plan), and Long-Term (multiple Corporate Plans).</p> <p>Information will be sought from Project Managers for those projects that are projected to be completed beyond the scope of the current Corporate Plan, to allow reporting on the planned outcomes that are expected to be in place by 2026 which can then be reported to Elected Members as required.</p> <p>Chief Executive</p> <p>December 2025</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
sustainability and resilience of council services.		
<p>BV3. Use of financial flexibility</p> <p>The council is taking steps to support its long-term financial sustainability. Given that the local energy industry has been a key source of council income, the council has recognised that sustaining this income through the transition to green energy is important for its long-term financial outlook. It also anticipates longer-term financial benefits from projects in the Change Programme, but these have not been articulated to date.</p> <p>The council should seek to take advantage of its strong financial position in the short-term to invest in transformational activity that will support long-term sustainability.</p> <p>Risk – Ongoing reliance on reserves to balance the budget may limit opportunities to invest in long-term service sustainability and weaken financial resilience.</p>	<p>The council should identify opportunities to invest in transformational projects that support the long-term sustainability of council services.</p>	<p>The council accepts the principle that investment in transformational projects is essential to long-term service sustainability. While the council's reserves are actively invested and not wholly available for immediate use, it will continue to explore opportunities to support transformation within the constraints of its investment strategy. The council will develop and implement a clear investment strategy to prioritise and fund transformational projects that will improve service sustainability, reduce long-term costs, and align with strategic priorities. This will include criteria for project selection, timelines, and measurable outcomes.</p> <p>Chief Executive</p> <p>March 2026</p>
<p>BV4. Progress reporting to the CMT and elected members</p> <p>The council should enhance its reporting on progress with the Change Programme to the CMT to include information on progress in relation to timings, costs and estimated benefits within updates. It should also enhance its reporting to elected members to include progress in relation to costs and estimated benefits.</p> <p>Risk – The CMT and elected members do not have sufficient oversight of progress with Change Programme projects.</p>	<p>The council should enhance its reporting to the Corporate Management Team and elected members to include information on progress in relation to timings, costs and estimated benefits within updates.</p>	<p>The PMO RAG report presented to CMT will be amended to track documentation progress, benefit realisation, and providing key dates from individual Project Plans.</p> <p>As there is likely to be significant crossover, a version of this with additional narrative will be included alongside the AIP regularly reported to elected members.</p> <p>Chief Executive</p> <p>December 2025</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>BV5. Change Programme success measures</p> <p>There is a lack of success measures in place for Change Programme projects due to the stage that many of the projects are at.</p> <p>Risk – The council is unable to quantify the impact of Change Programme projects.</p>	<p>The council should ensure that success measures are in place and monitored and reported for its Change Programme projects.</p>	<p>As above, the RAG report to CMT will capture benefits and the timescales associated with those.</p> <p>Project Managers will also complete benefit realisation reports to be reported to CMT as Learning Board when it is timely to do so.</p> <p>Chief Executive</p> <p>December 2025</p>

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>PY1. Partnering arrangements with related parties</p> <p>The council has partnering arrangements with a number of related parties. These include an arrangement with the Shetland Charitable Trust to support the delivery of care services through funding and provision of assets, set out in the Rural Care Model of 2010. While the agreement includes provision for regular review of the model, the extant document does not fully reflect current working arrangements.</p> <p>Risk – the council is deemed to have legal or financial obligations because matters have not been clearly documented and agreed.</p>	<p>The council should review and refresh the partnering and funding agreements it has with Shetland Charitable Trust and other bodies to ensure they are fit for purpose and clearly document arrangements in place, including asset and funding provisions.</p> <p>Responsible officer: Director Corporate Services</p> <p>Agreed date: September 2025</p>	<p>Superseded</p> <p>Management has reported that discussions were held with the Shetland Charitable Trust to review the current contractual arrangements. Following review of all documents covering the relationship, both parties are in agreement that the existing arrangements will continue in anticipation of a review by the IJB as part of their work on Shifting the Balance of Care. Timeframes for review have still to be agreed.</p> <p>In the interim, the council has accepted the risk of exposure to legal or financial obligations within the current agreement.</p>
<p>PY2. Remuneration Report - Trade Union (Facility Time Publication Requirements) Regulations 2017 disclosures</p> <p>The regulations require a range of information on the time and costs of employee involvement in trade</p>	<p>Management should put arrangements in place to ensure the required information is collated in time for disclosure in the remuneration report in</p>	<p>Completed</p> <p>The Trade Union Facility Time Publication was included in the 2024/25 unaudited accounts.</p> <p>The council will continue to engage early with the Trade Unions each year to seek the</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>union activity to be published by the council each year.</p> <p>These disclosures have been required since 2020/21, but the council does not yet have processes in place to collate current year data, or information on the time spent on paid trade union activities, for publication in the unaudited annual accounts in June.</p> <p>Risk: The time and costs associated with staff involvement in trade union activity is not reported.</p>	<p>the 2024/25 unaudited annual accounts.</p> <p>Responsible officer:</p> <p>Executive Manager – HR</p> <p>Agreed date:</p> <p>June 2025</p>	<p>required data for inclusion in the unaudited accounts.</p>
<p>PY3. Reliance on reserves</p> <p>The council continues to rely on reserves to balance its annual budget.</p> <p>Risk – The council is not able to demonstrate that it is in a financially sustainable position.</p>	<p>Work requires to be done to reduce reliance on reserves, or other unsustainable sources, in order to achieve financial balance each year.</p> <p>Responsible officer:</p> <p>Executive Manager - Finance</p> <p>Agreed date:</p> <p>March 2025</p>	<p>Ongoing</p> <p>An updated Medium-Term Financial Plan was presented to the council on 6 October 2025 to inform the budget setting process. This included a comprehensive section on reserves in the context of financial sustainability.</p> <p>The report highlights the forecasted cumulative budget deficit has increased and this continues to be a focus for all financial discussions around bridging this gap.</p> <p>The MTFP includes a number of specific actions designed to assist the council in bridging the financial gap in future years (para 52.).</p> <p>An updated MTFP will be prepared during 2026.</p> <p>We will continue to review and report on progress in this area as part of our financial sustainability considerations in the 2025/26 audit.</p>

Progress against previous Best Value findings and recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update on progress
<p>BV1 Review of the Workforce Plan was delayed</p> <p>The Workforce Plan 2021-26 is due to be reviewed on an annual basis. The 2022 review was delayed due to other priorities, and the first review of the Workforce Plan was completed in June 2023.</p> <p>Risk – without regular review the Workforce Plan may not adequately reflect the current challenges and opportunities facing the council.</p>	<p>The council should ensure that its workforce plan is reviewed regularly and incorporate information from service-level workforce plans once they have been developed.</p> <p>Responsible Officer: Executive Manager HR</p> <p>Agreed date: December 2024 with annual updates thereafter as required.</p>	<p>Complete</p> <p>The Strategic Workforce Plan Update was approved by the Policy and Resources Committee in December 2024.</p> <p>Work on the next update is ongoing and due to be presented to Committee in December 2025.</p>
<p>BV2 Service level workforce plans</p> <p>The council does not presently have service-level workforce plans, and progress has been slow to develop these. Council services are in the process of developing service-level workforce plans to fully understand the council's workforce challenges and opportunities and to help support the delivery of the workforce strategy and plan.</p> <p>Risk –the council may fail to deliver on the workforce strategy and plan.</p>	<p>The council needs to finalise its service level workforce plans so that these can support the delivery of the council's workforce strategy and plan.</p> <p>Responsible Officer: Executive Manager HR</p> <p>Agreed date: December 2024 with annual reviews thereafter</p>	<p>Ongoing</p> <p>Guidance and training on how to complete the workforce plans was provided throughout 2024.</p> <p>The majority of service level workforce plans (21 of 27) are in place, with outstanding plans in progress.</p> <p>Director meetings were conducted based on the plans to help prioritise key elements of the strategic workforce plan. One-to-one support was also provided to managers.</p> <p>We will review and assess council progress in developing workforce plans across all service areas as part of our 2025/26 audit.</p>
<p>BV3 Joined up approach to developing digital technology and the workforce</p>	<p>The council should develop a consistent joined-up approach to develop and adapt digital services to help</p>	<p>Ongoing</p> <p>The Digital Innovation and AI Feasibility Project was approved</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update on progress
<p>The council lacks a consistent and strategic approach to the use of digital technology to improve workforce productivity.</p> <p>Risk – This could lead to duplication of tasks, wasted resources and less informed decision-making processes.</p>	<p>improve workforce productivity and service delivery.</p> <p>Responsible Officer: Executive Manager ICT</p> <p>Agreed date: October 2025</p>	<p>by the ICT Management Board in September 2025.</p> <p>The project aims to investigate Digital Innovation (DI) and Artificial Intelligence (AI) with regards to how useful these technologies might be for the council. The project will engage with services and explore alternative operational models through the use of Digital and AI systems.</p> <p>The estimated implementation period is 6-12 months, with progress reported through Corporate Management Team as part of the Change Programme.</p> <p>We will monitor progress in implementation of the project and report as part of our 2025/26 audit.</p>
<p>BV4 Adoption of digital technology</p> <p>The council has committed to the better use of technology, but it is at an early stage of its digital adoption compared to other councils.</p> <p>Risk – The council may not have adequate digital technologies to support its workforce to deliver efficient and effective council services in the future.</p>	<p>As the council is at an early stage in the adoption of digital infrastructure it should look at how other councils have integrated systems to improve workforce productivity and service delivery.</p> <p>Responsible Officer: Executive Manager ICT</p> <p>Agreed date: October 2025</p>	<p>Complete</p> <p>The council regularly engages with other local authorities through avenues such as the Local Government Digital Leaders Group and the Innovation and Collaboration Forum. Both have a number of councils on rotation that come and showcase the work they are doing.</p> <p>The council continues to look at new ways of working utilising available digital technologies including through the DI and AI Feasibility Project outlined in the previous update (above).</p>
<p>BV5 Use of agency workers</p> <p>The council has a high reliance on agency workers, and a lack of service-level</p>	<p>The council needs to finalise its project work to better understand how agency workers are used by</p>	<p>Ongoing</p> <p>The planned report was not presented to the Sponsoring</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update on progress
<p>workforce plans means the council doesn't have an overall strategy of how those agency workers are used by council services.</p> <p>Risk – The council's current reliance on agency workers may present business continuity risks for services.</p>	<p>services, to inform strategic planning.</p> <p>Responsible Officer: Director Corporate Services</p> <p>Agreed date: Report to CMT on 19 November 2024 with timelines for work streams.</p>	<p>Group on 19 November 2024 due to other work priorities.</p> <p>The Corporate Management Team has, however, received oversight of reports related to the council's use of agency workers, including a report in August 2025 on the use of domestic property leased to the council, to house agency workers.</p> <p>A Project Implementation Document (PID), "Agency Workers: Accommodation & other contractual issues" has been prepared, with Legal Services analysis and risk assessment completed June 2025. A revised action plan is being developed incorporating recommendations from Internal Audit report July 2025, with a Project Board meeting scheduled in November 2025.</p> <p>We will continue to monitor and report back on progress on this issue as part of our 2025/26 audit.</p>
<p>BV6 Measuring the impact of workforce planning</p> <p>The council has still to develop measures and targets to monitor and report on progress against the workforce plan.</p> <p>Risk – workforce planning arrangements may not be supporting the delivery of the council's strategic priorities</p>	<p>The council needs to finalise the development of its set of performance indicators, which should be SMART, to monitor and report against the 18 key measures set out in its workforce plan.</p> <p>Responsible Officer: Executive Manager HR</p> <p>Agreed date: December 2025</p>	<p>Ongoing</p> <p>The council plans to present the set of performance indicators and associated measurements to the Policy and Resources Committee in December 2025, in line with previously agreed action.</p> <p>We will review and report back on this issue as part of our 2025/26 audit.</p>

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practice: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Shetland Islands Council

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