

Shetlands Islands Council

Annual report on the 2011/12 audit



Prepared for Members of Shetland Islands Council and the Controller of Audit
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

This report summarises the findings from our 2011/12 audit of Shetland Islands Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion that the financial statements of Shetland Islands Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements. For the preceding six years, the council's financial statements had carried a qualification in relation to the non-consolidation of the Shetland Charitable Trust (SCT). It is a significant development in the council's financial reporting that the SCT has now been included in the group accounts and that, consequently the audit opinion is now unqualified.

This year the financial statements were submitted on time, to the expected quality and accompanied with working papers of a high standard. As a result of these significant improvements we were able to conduct our audit more efficiently.

Financial position

In 2011/12 the council spent £205 million on the provision of public services and the net operating expenditure was £147 million. Taking investment transactions into account, there was an overall deficit of £34 million and, after statutory adjustments, the draw on reserves was £36 million.

With a total usable reserve balance of £239.046 million as at 31 March 2012 (of which £193.17 million is readily available to the council) the current level of draw on reserves cannot be sustained beyond the short-term. This matter has also been flagged to the council by its Section 95 Officer, and we would concur that this is a crucial message for the council to note in addressing its financial and service planning for future years.

To achieve a balanced budget over the medium term, the council has agreed a five year financial plan. This challenging plan aims to achieve total savings of £38.360 million over the period while maintaining a minimum reserve balance of £125 million.

Governance Arrangements

Generally, we are satisfied that the council's governance arrangements and internal controls have operated effectively during the year. The council has made good progress in improving its governance arrangements by implementing new political arrangements and a revised management structure.

The council's strategic and departmental risk registers are being updated and were due to be reviewed by the corporate management team by the end of October and formally approved by the Audit and Standards Committee in December 2012.

Best Value, use of resources and performance

The council continues to progress with the implementation of the Improvement Plan that was put in place to address the recommendations of the Section 102 report issued by the Accounts Commission in May 2010.

The follow-up report issued in January 2012 found that the council had made significant progress in a number of areas of its Improvement Plan but further work was still required. We have monitored the council's progress throughout the year and provide an update within this report. A further Section 102 follow-up is due in November 2012 and this will report in more detail on the council's progress.

Outlook

The outlook for all public sector organisations is challenging. The Scottish Government's spending plans for the next four years show a cumulative real term reduction in the Scottish Budget of 12.3% by 2014/15. Local government funding overall reduced by 3% between 2011/12 and 2012/13 and will result in a cumulative reduction of 6.3% by 2014/15.

The current pressures on local government from reduced budgets and growing demands for services are substantial. Local authorities will have to deal with further budget reductions while meeting their statutory duty to secure best value.

The challenge is even more difficult for the council as, against this backdrop, it seeks to implement a five year financial plan required to deliver a balanced budget and end the need to draw significantly from its reserves.

In this environment, the Welfare Reform Act 2012 will bring about the biggest reform of the UK welfare system for 60 years. The introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. The council has been proactive in its efforts to ensure key stakeholders, customers and the general public are aware of the impact of the welfare reform agenda. The council is leading a welfare reform sub-group which has been tasked with developing an action plan to address the welfare reform changes. The membership of the sub-group includes representatives from a number of key stakeholders including the DWP, the NHS, Hjaltland Housing Association and the Citizens Advice Bureau.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit and Standards Committee on 16 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
3. Appendix B is an action plan setting out the higher level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members of the council and the Controller of Audit and should form a key part of discussions within the Audit and Standards Committee as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website (www.audit-scotland.gov.uk) after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income, and
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of the council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 and of the income and expenditure for the year then ended. For the preceding six years the council's financial statements had carried an audit qualification in relation to the non-consolidation of the Shetland Charitable Trust (SCT). It is a significant development in the council's financial reporting that the SCT has now been included in the group accounts and that, consequently the audit opinion is now unqualified.

Legality

11. Through our planned audit work, we consider the legality of the council's financial transactions. In addition, the Executive Manager - Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit that require to be brought to members' attention.

Annual governance statement

12. For the first time, the 2011/12 financial statements include an annual governance statement. The inclusion of an annual governance statement is in line with good practice as set out by CIPFA/SOLACE in 'Delivering good governance in local government'.

13. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control.

Remuneration report

14. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are pleased to report that we are satisfied that the 2011/12 financial statements are compliant with the 2011 Code.

Accounts submission

16. The council's unaudited financial statements were submitted to the Controller of Audit in advance of the 29 June deadline. The timely provision of the working papers and co-operation of finance staff throughout the audit enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2012. They are now available for presentation to members and for publication.
17. Last year we reported on the poor quality of the financial statements, inadequate working papers and the difficulties this presented for our audit. We are pleased to report that this year the financial statements were submitted on time and to the expected quality. The working papers provided were of a high standard. As a result of these improvements we were able to conduct our audit more efficiently.

Matters arising

18. In our *Report to those charged with governance on the 2011/12 audit* issued to the Audit and Standards Committee on 27 September 2012 we highlighted issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions and the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. The resolutions for these issues, agreed with the Executive Manager - Finance, are documented in the report. As such, the issues are reported here for information purposes and no action plan points have been raised.
19. Shetland Charitable Trust - This year is the first year that the accounts of Shetland Charitable Trust (SCT) have been included in the group accounts. As the consolidation of the SCT's final audited financial statements was effected at a very late stage in the audit process, and was not formally sponsored by the SCT, we did not obtain our standard assurances required under ISA600 'Using the work of another auditor'. These matters include the auditor's professional

competence and their audit opinion, the component's governance and internal control arrangements and accounting policies.

20. Using information maintained by Audit Scotland and supplemented by our review of the SCT's audited financial statements and other publicly available information, we obtained the necessary assurances required by IAS 600.
21. **Bad Debt Provision.** In 2011/12 there was a revised approach to determining an appropriate level of bad debt provision. The Executive Manager - Finance explained that the level of bad debt provision was reviewed and considered to be too high based on recent collection rates and actual debt written off. As a result the council decided to reduce the level of bad debt until it was more in line with actual write-offs, and we concurred with this approach.
22. **Valuation of Council Houses.** The valuation date for the council's housing stock was the first day of the accounting period (i.e. 1st April) and did not allow the £1.8 million cost of improvement works during 2011/12 to be considered. The council has agreed that, in future years, the revaluation date for non-current assets will be at the end of the previous financial year.
23. **Investment Income.** The council invests in unitised products through three fund managers and the treatment and disclosure of investment income and fees is inconsistent. The council included an additional explanation of investment income and fees in the notes to the financial statements and, going forward, intends to review the current arrangements.
24. **Grant Payments.** Our review of a sample of year-end grant payments made by the council identified that some payments had been incorrectly posted to 2012/13 instead of 2011/12. The council reviewed all year-end grant payments and identified a total of £69,389 of expenditure that required to be accrued into 2011/12. The financial statements were updated to include this accrual.
25. **Heritage Assets.** A new section was added to the Code that requires authorities to account for tangible heritage assets in accordance with FRS 30 Heritage Assets. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits value to be measured in any way which is appropriate and relevant. In accordance with this Code requirement, the council has recognised heritage of £4.768 million. We are satisfied with the approach adopted by the council in the implementation of FRS 30.

Presentational and monetary adjustments to the unaudited accounts

26. A number of adjustments were made to the 2011/12 unaudited financial statements in accordance with normal audit practice. These adjustments were not material in total to the overall financial statements, and mainly related to reclassifications within the balance sheet and comprehensive income and expenditure account. A number of presentational amendments were also processed to improve the disclosures within the financial statements. All errors identified were corrected in the accounts, and there were no unadjusted misstatements requiring to be brought to the attention of the Audit and Standards Committee.

Prior year adjustments

27. As stated above, the 2011 Code has been amended to require authorities to account for tangible heritage assets in accordance with FRS 30 Heritage Assets. The council recognised assets to the value of £4.768 million based on the assets fair value. As this is a change in accounting policy, the previous year's figures have been restated to disclose heritage assets of £3.096 million.

Post balance sheet events

28. The impact of known events after the balance sheet date has been considered in the preparation of the financial statements. There were no such events identified which required any adjustments to be made to the financial statements, however, it has been noted that the Police and Fire Reform (Scotland) Act 2012 received royal assent on 7 August 2012. Responsibility for the Police and Fire and Rescue Services will transfer from local government bodies to central government from 1 April 2013. The full impact of these reforms on local authorities is still being assessed.

Pension costs

29. As at 31 March 2012 the pension fund had a net liability of £104.5 million, an increase from the previous year's figure of £91.1 million. This increase is mainly due to changes in the actuarial assumptions used to determine how much the council will have to pay out in future pension payments. These changes indicate that the council will have to make higher payments than previously expected.

Whole of government accounts

30. The whole of government accounts are the consolidated financial statements for all branches of government in the UK. We are pleased to say that the council submitted their consolidated pack to the Scottish Government by the statutory deadline of 29 July. The audited return was completed by the audit deadline of 5 October. No material errors were identified in the council's submission.

Group financial statements

31. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies, such as police, fire and valuation boards.
32. The council has consolidated three subsidiaries and three associates into the group financial statements in accordance with the 2011 Code. The overall effect of inclusion of these group entities is to increase net worth by £201.5 million.
33. For the first time the council has included Shetland Charitable Trust as a subsidiary in its group accounts. We would concur that this accurately reflects the relationship between the

council and the Trust for 2011/12 under proper accounting standards and consequently this has allowed us to remove the qualification on this matter which had been included in the auditor's reports for the preceding six years. The other two subsidiaries are Shetland Development Trust and Zetland Transport Partnership.

34. The three associates included in the council's group accounts are Northern Joint Police Board, Highland and Islands Fire Board and Orkney and Shetland Valuation Joint Board.
35. We have highlighted the following issues:
 - all bodies within the group received unqualified audit opinions from their external auditors
 - in accordance with recommended accounting practice, key policies for component bodies have been aligned with the council's. Where there are differences these have been disclosed in the financial statements.

Trust funds

36. Shetland Islands Council administers, as sole trustee, 8 trust funds related to specific services. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.
37. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (1 council), above average (12 councils), average (14 councils) and below average (3 councils). The main factors considered by OSCR were compliance of the Trustees Annual Report, the layout and content of financial information and the move towards independent external scrutiny of the accounts. Shetland Islands Council was assessed in the "Above Average" category which shows a considerable improvement from the previous year's 'Below Average' rating.

Carbon Trading

38. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The council is now required to purchase and account for carbon credits to cover all of its non transport related energy usage. The 2011/12 financial year was the first year that participating authorities had an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. At 31 March 2012 the council had a provision of £0.142 million in relation to its 2011/12 carbon reduction commitment.

Outlook

39. It is essential that the considerable improvements made by the finance section in the financial statements preparation process this year are sustained in future years to ensure that there is reliable financial information to support the decision-making process.

Refer Action Plan No 1

40. Following a decision in September 2012 by the trustees, the board of Shetland Charitable Trust is currently being restructured. The new structure is due to be in place by 31 March 2013. During the 2012/13 audit we will monitor the impact of the restructure on the council's group accounts disclosures.

Financial position

41. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
42. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
43. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

44. In 2011/12, the council spent £205 million on the provision of public services (an increase of £8 million on the previous year). The council's net operating expenditure in 2011/12 was £147 million (an increase of £45 million on the previous year). This was met by central government grant and local taxation totalling £109 million, giving a deficit of £38 million which was 26% of net expenditure for the year (11% in 2010/11). Investment income of £4 million was received during the year, all of which produced an overall deficit of £34 million.
45. Last year, net operating expenditure included a credit of £31.5 million in respect of the savings caused by a change in the basis for uprating pensions from the retail prices index to the consumer prices index. For comparison purposes, if this amount was removed, there would have been a decrease in the cost of services in 2011/12 of £7.3 million (5%) when compared with 2010/11.
46. The budget set for 2011/12 was based on a Band D council tax level of £1,053 with planned contributions from reserves of £32.06 million. Council decisions during the year revised the budgeted draw on reserves to £33.90 million.
47. After taking account of statutory adjustments, the actual draw on reserves was £35.77 million, an unfavourable variance of £1.87 million against the revised budget. The main reasons for the variance against budget were:
 - a net overspend of £4.55 million on the general fund
 - an underspend of £2.5 million on the capital account, as a result of slippage
 - a £0.33 million higher contribution to the reserve fund from the harbour account
 - a £0.16 million overspend on the housing revenue account.

48. The general fund overspend is mainly due to the following one-off payments: £4.88 million to Lerwick Port Authority; £1.54 million termination costs and £0.35 million cost for the settlement of single status back pay awards. The payment to Lerwick Port Authority became payable as a result of the ruling in the court case in relation to the Bressay Bridge. In September 2012, the Chief Executive reported to the full council that the internal procedures have been revised to minimise the risk of reoccurrence in the future.

Reserve Balance

49. Exhibit 1 shows the balances in the council's funds at 31 March 2012 compared to the previous year. The funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2012 totalled £239.046 million, a decrease of £29.852 million on the previous year. When the funds to be used for specific purposes are deducted the level of reserves held for general use falls to £193.17 million.

Exhibit 1: Reserves

Description	31 March 2011 £ million	31 March 2012 £ million
General Fund	3.000	3.000
Capital Fund	108.404	100.542
Repair and Renewal Fund	76.027	65.459
Reserve Fund	61.621	57.129
Insurance Fund	0.222	0.293
Capital Efficiency/ Spend to Save Reserve	5.000	9.096
Revenue Efficiency/Spend to Save Reserve	0.500	0.510
Potential Contingent Liability	11.400	0.849
Marine Superannuation Fund	2.582	2.021
Hansel Funds	0.090	0.104
Central Energy Efficiency Fund	0.052	0.043
Total	268.898	239.046

Source: Shetland Islands Council 2011/12 financial statements

Accounting Ratios

50. In accordance with good practice the council's 2011/12 statement of accounts includes a number of accounting ratios to help, explain the financial statements. These include:

- uncommitted general fund reserve: 2% of annual budgeted expenditure
- movement in uncommitted general fund balance: 0%
- council tax collection rate: 96.6%
- actual outturn: 104% of overall funding.

Capital investment and performance 2011/12

51. A report to the Executive Committee in June 2012 detailed the 2011/12 capital expenditure outturn position:

Exhibit 2: 2011/12 capital expenditure outturn position

Capital Programme Expenditure	2011/12 Original budget £000	2011/12 Revised budget £000	2011/12 Actual Outturn £000	2011/12 Total Variance £000
General Fund	25,646	14,383	13,861	522
AHS Financing arrangement	2,000	100	0	100
HRA	7,473	7,505	2,753	4,752
Harbour Account	340	285	232	53
Total	35,459	22,273	16,846	5,427

52. Capital expenditure was funded as follows:

- capital receipts of £1.310 million
- government grants of £7.516 million
- draw from reserves of £5.945 million
- capital from current revenue of £0.894 million
- internal loans fund charges of £1.181 million.

53. The main reason for the 24% underspend on the revised budget (52% of original budget) was slippage in the capital programme. This is a significant level of slippage and the Executive Committee report does not outline the impact this has on service delivery.

Refer Action Plan No 2

Treasury management

54. The council does not have any borrowings. Funds held for investment by the council at 31 March 2012 were £193.2 million (£222.7 million at 31 March 2011) and investment income during the year was £3.324 million (£3.277 million in 2010/11). At 31 March 2012 the council held £10.654 million in cash.

Financial planning to support priority setting and cost reductions

55. For a number of years, the council has met budget deficits by drawing significantly on its reserves (£35.8 million was drawn from its reserves in 2011/12). With a reserve balance of £239.046 million as at 31 March 2012 this level of funding from reserves cannot be maintained in the long term. In September 2012 the council agreed a five year financial plan aimed at achieving financial sustainability and ensuring resources are properly aligned with its objectives and priorities. This sets out the council's plan to address the significant savings required to maintain a balanced budget while retaining a minimum level of reserves.

Budget arrangements

56. The financial plan sets out the council's budget arrangements for the next five years and each director is required to develop five year resourced directorate and service plans based on their target operating budgets.
57. A budget carry forward scheme has been introduced to encourage services to underspend against their budgets. Through the scheme, a service can carry 50% of any one-off underspend into the following financial year, assuming it has met its overall budget.
58. The council also has a 'spend to save' scheme in place that provides funding to a service in order to achieve savings at a later date, as long as they are achieved within three years.

Reserves policy

59. The council's financial plan specifies a new minimum reserves level of £125 million that replaces the previous minimum level of £250 million. The balance of funds held for investment by the council was £193.2 million (£222.7 million at 31 March 2011). The council sees this lower minimum reserves level as an achievable target that will allow the anticipated draw on reserves in the short-term to meet expenditure requirements while providing a significant level of investment income over the longer term.

Asset Investment Plan

60. In March 2012 the council agreed a five year asset investment plan totalling £51.6 million, of which £23.5 million was to be funded from reserves. This included:
- Contractually committed expenditure: £7.474 million
 - Maintenance programme: £23.799 million
 - New developments: £20.322 million
61. The financial plan proposes a new asset investment plan which states that that the council adopts a policy of focussing on the maintenance of existing assets rather than creating new assets (with the exception of Anderson High School and the high-speed broadband installation). The capital programme would, therefore, be funded mainly from Scottish Government and capital receipts and this would reduce the draw on reserves by around £5.6 million per year. Any new asset requiring a draw on reserves would be subject to an investment appraisal process.

62. The financial plan requires any capital expenditure incurred by the Harbour Account to be met from capital receipts or capital finances from current revenue and not funded from reserves.
63. The Housing Revenue Account (HRA) currently owes the General Fund £40.6 million as a result of borrowing to fund capital expenditure. The council needs to reduce this debt to a sustainable level and is currently working on how this can be achieved. In the meantime, the financial plan states that no new debt will be incurred by the HRA to fund capital expenditure projects.
64. The Scottish Government has recently announced that Scotland's Schools for the Future programme will provide funding for the new Anderson High School. The total cost of the new school is expected to be around £36 million. The level of Scottish Government funding has yet to be finalised and the council has set aside £12 million from its reserves to meet its own capital contribution. In addition to the use of reserves, the council intends to consider whether the use of external borrowing would provide best value.

Housing Revenue Account

65. As stated above, the HRA has net borrowing from the General Fund £40.6 million and, with the Scottish Government announcing its intention to discontinue the Housing Support Grant, this level of debt may be unsustainable. The council is currently working on how to address this debt over a 30 year period. Through the financial plan the council intends to create a £10 million provision for the potential write-off of HRA debt.
66. The HRA reserve (£12.259 million as at 31 March 2012) provides income through market investment. The financial plan limits the annual draw on the HRA reserve to 2% to maintain the current level of the reserve over the medium term.

Harbour Account

67. Over a period of years, the Harbour Account has generated significant surpluses that have been transferred to the council's reserve fund. The financial plan does not anticipate the Harbour Account generating any surpluses in the next 4 years because of :
 - an expected 40% reduction in income from the suspension of the Schiehallion oilfield
 - a pension liability of around £8 million from the transfer of Shetland Towage employees.
68. There is a risk that the Harbour Account may operate at a deficit over the next three years and this will have to be funded from the council's reserves.
69. The financial plan estimates that around £39 million will be needed to sustain the Harbour Account until the expected closure of the Sella Ness harbour in the late 2030s. This amount has been earmarked within the council's reserve fund.

Procurement

70. In 2011 we performed a follow-up review of the actions taken by the council in response to the Audit Scotland report "Improving Public Sector Purchasing". At the time of our review, the

council's procurement strategy had not been updated. In March 2012 the council approved a new procurement strategy.

71. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far three rounds of PCA assessment have been completed. In 2011 the council scored 19% which is overall classed as 'developing' but with 'conformance' for Strategy & Objectives and People.
72. The Scottish Government has set an expectation that councils will achieve a 50% 'improved performance' rating by March 2013. Island councils have generally obtained a relatively low PCA score compared to other councils and this may reflect the different procurement arrangement of island authorities. Scotland Excel has been working with Scottish island councils to address how they can best demonstrate that the procurement capability can be evidenced and improved in as straightforward a manner as possible. Since the last assessment the PCA has been updated.
73. In recent years the council has been subject to major organisational change which has adversely affected its procurement strategy and arrangements. With the restructuring now largely complete, together with the recent advice and guidance received from Scotland Excel's PCA evaluators, the council anticipates a significantly improved PCA score from the next assessment expected in November 2012.

Refer Action Plan No 3

Workforce reduction

74. As disclosed in the 2011/12 remuneration report, the total cost of exit packages to the council for 65 employees who left during the year was £3.592 million (in 2010/11 the cost was £3.038 million for 36 employees).
75. In June 2012 the Executive Committee approved the Policy for Organisational Restructure that sets out the framework and process for sustaining organisational restructuring. The significant savings required by the council may have an impact on its services and it is essential that effective workforce management arrangements are in place to ensure effective delivery of high quality services.

Refer Action Plan No 4

Partnership working

76. The council works collaboratively with NHS Shetland and other partners in the public, private and voluntary sectors. The Shetland Partnership is the local Community Planning Partnership for the Shetland Islands Council area. The council has developed and published a community plan covering the period 2012 to 2020 and this was developed following an intensive scenario planning exercise in 2011. This exercise was designed to explore and test alternative futures as a way of strengthening the focus of the community planning partnership. The process

aimed to define key drivers for positive change in Shetland and use those to build a number of alternative futures that describe what life would be like in Shetland in 2030. The data was shared with partners and four scenarios were developed. The community plan presents a shared policy response to them.

77. Since the publication of the previous community plan in 2004, the Partnership has developed a guide to ensure consistency in the way local organisations involve local communities in Shetland. The guide builds on the National Standards for Community Engagement.
78. The council allocated funding to community groups to help tackle poverty and inequalities including the Shetland Befriending Scheme, Shetland Community Bike Project, Voluntary Action Shetland and the Citizens Advice Bureau.
79. "Wir Community, Wir Choice" and "Sound Choices" are two projects which featured partnership working and which gave communities an opportunity to say what needed to change within their areas and to help secure funding for individual initiatives.
80. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth, the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. This will continue to evolve in 2012/13.

Outlook

2012/13 budget

81. In February 2012 the council agreed the 2012/13 revenue budget of £119.0 million (2011/12 £127.4 million). This included a savings target of £15.6 million and a draw on reserves of £17.1 million.
82. In September 2012 the council reported a revised 2012/13 revenue budget of £125.6 million, requiring an additional draw on reserves of £5.7 million. The report highlighted the following:
 - some planned savings would not be achieved which will result in a projected General Fund overspend of £2.603 unless alternative savings can be made
 - the HRA is projected to be within budget
 - the Harbour Account is projected to achieve £1.484 million less in income.

Financial forecasts beyond 2012/13

83. The council's financial plan includes a model revenue budget for the next 5 years which shows the following:

Description	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Planned Savings	15,351	11,195	7,871	2,223	1,720	0
Expected General Fund Expenditure	122,909	110,924	104,384	102,797	102,996	104,618
Expected Funding	102,790	95,117	93,753	93,339	95,983	100,031
Expected Draw on Reserves	20,119	15,807	10,631	9,458	7,013	4,586

84. The council has identified a number of actual and potential cost pressures that it will face in future years, including welfare reform, severance costs, borrowing costs, salary increases and inflation. The budget model currently includes a 2% allowance for costs pressures and this will be updated annually when more detail on potential cost pressures becomes available.
85. To achieve its planned budget from 2012/13 to 2017/18 the council needs to achieve total savings of £38.360 million over the period and this presents a significant challenge.

Significant financial risks

86. The council's medium term financial plan includes a number of assumptions used when determining the budget model for the next five years. These assumptions relate to expenditure (e.g. salaries, pensions, demographic changes, utility costs, inflation, and savings targets) and income (e.g. Scottish Government revenue and capital funding, NDR and CT income, investment income). The most significant of these risks is the expected return on investment income which can fluctuate considerably from year to year.

Refer Action Plan No 5

Governance and accountability

87. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
88. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
89. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
90. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

91. A report presented by the Controller of Audit in May 2010 concluded that the council needed to improve its governance and accountability arrangements. The council developed a plan in November 2010 to implement the new corporate improvement process and help embed best practice.
92. A Controller of Audit follow-up report was presented to the full council in December 2011 and concluded that the council has made significant progress in reviewing, updating and improving its governance arrangements. Although these arrangements are still relatively new and are bedding in, the early indications are that improvements are being achieved. In addition to establishing the new political management structures, the council has agreed a comprehensive set of supporting governance and constitutional arrangements.
93. The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with the Executive Committee. The Executive Committee also has responsibility for overall financial planning arrangements, the reserves policies, budget setting and monitoring. The decision making process is supported through the Audit and Standards Committee which has a remit to oversee standards within the council.

94. An Improvement Plan progress report was provided to the full council on 20 September 2012 highlighting the good overall progress made, in particular by implementing new political management arrangements and a new management structure which included the appointment of a new Executive Manager - Finance (Section 95 Officer) in April 2012 and Chief Executive in September 2012.
95. Following the council elections in May 2012, a comprehensive member induction programme was delivered to all elected members. A member development programme is now in place with prioritised training in licensing, planning, recruitment and selection and audit standards undertaken. A further training event is arranged in November 2012 to cover essential areas of members understanding and to help develop a skills framework and development plans.
96. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda.
97. A code of corporate governance was approved by the full council on 20 September 2012 and takes account of the following nine key governance principles:
 - selflessness
 - integrity
 - objectivity
 - accountability
 - openness
 - honesty
 - leadership
 - public service
 - respect
98. The council has also commenced a self assessment review of the corporate governance framework to identify their progress against each of the principles noted above and any remedial actions required. The council plans to complete the initial assessment by November and report to the Audit and Standards Committee in December 2012.

Internal control

99. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
100. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

101. We reviewed the range and quality of work carried out by internal audit as part of our annual assessment in terms of ISA 610, and concluded that the service continues to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
102. Our audit work attained the required assurance to enable us to place reliance on the council's financial systems. The results of our review of key controls were reported to the Audit & Standards Committee on 14 August 2012. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented per an agreed timetable.

Risk Management

103. The council is updating its strategic and departmental risk registers to re-align with council priorities. The risk registers are being reviewed by the corporate management team by the end of October and will be formally approved by the Audit and Standards Committee in December 2012. It is important that the risk registers are progressed to ensure that the council is aware of the key risks that it needs to manage effectively.

Refer Action Plan No 6

ICT data handling and security

104. The council maintains a sound information management environment. This is being achieved through the implementation of policies, guidance, standards and training to maintain and improve information governance. The council recognised the need to maintain an information asset register (IAR) as part of good governance and the Information Technology Infrastructure Library (ITIL) compliance project included the creation of a system catalogue which was the basis for the IAR. The council also has a dedicated security review team which undertakes quarterly systems reviews.
105. The council makes effective use of information communication technology (ICT) to support and deliver services and its strategic vision sees ICT as an integral part of the council's service delivery activities. A project initiation document was created in May 2012 for the development of the new ICT strategy which takes into account the savings requirements placed upon the council and includes investment in improved ICT infrastructure and new applications to support changing business needs.
106. The council is in the process of updating the ICT Strategy for 2013-18. The ICT management board plans to review the updated ICT strategy in November 2012 with formal approval by the full council in December 2012.

Refer Action Plan No 7

107. The council has adopted the use of virtualisation technology to help manage information storage, achieve cost savings and improve operational efficiency and is planning to initiate a full virtualisation project for all servers in 2013. We will continue to review these arrangements as part of the 2012/13 audit of the council.

108. The council has also provided encrypted memory sticks to all councillors and other users on demand. Laptops, including members' laptops have also been encrypted where this was deemed necessary because of the sensitive nature of the data. No security incidents were identified in 2011/12.
109. As part of our Computer Services Review undertaken during 2011/12, we identified areas where we consider that improvements to the ICT infrastructure can be made. Areas have been discussed with officers and have either already been implemented or will be implemented per agreed timetable and we will continue to review these developments as part of the 2012/13 audit of the council, for example:
- There is scope for improvements in the procedures used to monitor disk space and the utilisation of equipment and capacity. Due to financial savings targets which require equipment to be used longer than originally anticipated, equipment lifecycles are extended. Monitoring helps anticipate failures so that appropriate action can be taken on a timely basis to minimise the risk of disruption.
 - Business owners for major systems have been identified. However, ICT Services have not been informed how critical systems are to their business objectives or the potential impact on service delivery in the event of a failure in these systems. Without this information, there is a risk that high priority incidents may not be dealt with timeously. In addition, the service's business continuity plan was recently updated but no test has been undertaken to date.

Shared Services

110. The council's ICT Service provides services to most public sector partners in Shetland e.g. the Charitable Trust, Shetland Arts and the Assessor. In April 2012, the council commenced providing ICT Services to the Shetland Recreational Trust for supporting their sport and leisure systems. In addition, the ICT Service provides the ICT Helpdesk service for NHS Shetland and also acts as a business continuity/disaster recovery site for them.

Prevention and detection of fraud and irregularities

111. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
112. Shetland Islands Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.

National Fraud Initiative in Scotland

113. Audit Scotland coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. This exercise, known as the National Fraud Initiative in Scotland (NFI), is undertaken every two years as part of the statutory audits of the participating bodies. The

latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI commenced in June 2012, and will expand the range of data sets and bodies.

114. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.
115. Shetland Islands Council was assessed as part of the 2010/11 NFI exercise. The council managed its role to the satisfaction of Audit Scotland and complied fully with the exercise.
116. The 41 council NFI reports identified a total of 4,760 matched items with 850 of these classified as "recommended filter matches" for investigation. Following investigation of all "recommended filter matches" and a percentage of "other" matched items, 44 errors were found relating to blue badge parking permit holders and concessionary travel passes which were still in use in the name of deceased individuals.

Housing and council tax benefits performance audit

117. A risk assessment was previously carried out on the council's benefits service in September 2008 which identified 27 risks to continuous improvement and an action plan was developed to address these risks. In July 2012, the council submitted its current self-assessment along with supporting evidence, and an updated action plan.
118. Although the council demonstrates awareness of what constitutes an effective, efficient and secure benefits service, there are five risks outstanding and four risks where action is ongoing from our previous risk assessment and, in order to ensure continuous improvement, the council needs to address these and the new risks identified. These include:
 - mitigating the risk that the performance of the benefits service will decline from September 2012 when a full-time member of staff is temporarily seconded to another section to provide maternity cover for a period of six to twelve months
 - ensuring that key policies and strategies are in place to cover the work of the benefits service, for example, an overpayments policy and a customer service strategy
 - setting targets and reporting all aspects of benefits performance to senior management and members
 - carrying out a benefit-specific customer and landlord survey to determine the quality of the service provided and help identify areas for service improvements
 - having a dedicated counter-fraud officer and routinely publicising sanction outcomes and counter-fraud initiatives.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

119. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in the council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Complaints Handling Procedures

120. In 2012 the Scottish Public Services Ombudsman (SPSO) issued guidance to all Scottish councils on implementation of a new standardised local authority complaints handling procedure. A deadline of 14 September 2012 was set for councils to either submit their procedure to SPSO for assessment or to outline progress and submit a clear plan for implementation. The SPSO visited Shetland in September and extended the deadline to 20th September. This was achieved by the council.

Outlook

121. In September 2012 the council appointed a new Chief Executive who will be tasked with continuing the focus on improving the governance of the organisation and leading the council in dealing with the considerable financial challenges which it faces. We will continue to review the council's developments in this area and a report is due to be made to the Accounts Commission by the end of 2012.

122. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

As part of our work on the 2012/13 audit, we will consider the council's preparedness for the introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Best Value, use of resources and performance

123. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
124. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
125. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
126. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
127. During the course of their audit appointment, auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
128. This section includes a commentary on the Best Value and performance management arrangements within the council. We also note any headline performance outcomes or measures used by the council and any comment on any relevant national reports and the council's response to these.

Management arrangements

129. The council's Improvement Plan was put in place to address the recommendations of the Accounts Commission's Section 102 report issued in May 2010. The Improvement Plan is considered by the council alongside its other key plans on a bi-annual basis and is reported and monitored by Corporate Management Team and the Executive Committee on a quarterly basis. Delivery against the Improvement Plan also forms a core element of senior management performance management arrangements.
130. The Section 102 follow-up report prepared in December 2011 stated that the council 'has made good progress to date on implementing many important elements of its improvement

plan'. The report also found 'the council understands that that there is still a long way to go before it can demonstrate all the attributes of a Best Value council ' and 'the council is moving in the right direction and there is a clear commitment to improve'.

Vision & Strategic Direction

131. In July 2012 the council agreed the Shetland Single Outcome Agreement 2012/15 (SOA). The SOA describes how the objectives set out in the Shetland Performance Framework will be delivered through action by local agencies and partners under the umbrella of the Shetland Community Plan. Progress on the SOA is reported to the full council annually and to the Executive Committee on a bi-annual basis.
132. The council agreed a Council Action Plan in July 2012 which drew together the key 2012/13 targets contained within its current savings plan, the Improvement Plan and the SOA. The aim of the Council Action Plan is to ensure that the council could deliver the short-term objectives agreed by the previous council administration while the newly elected council reviewed its medium and longer term objectives. Quarterly progress reports will be submitted to the Executive Committee to allow members to monitor the delivery and progress of the plan.
133. The council is currently reviewing its Corporate Plan and it is expected that an updated plan will be in place by February 2013.
134. In September 2012 the council reported on progress against the Improvement Plan and highlighted the following:
 - Member induction was delivered during May and June 2012.
 - The council Action Plan and Departmental Plans were endorsed by the council in July 2012.
 - A new Chief Executive was appointed September 2012.

Performance management

135. The council continues to work on the development of its performance management arrangements as set out in the Planning and Performance Management Framework (PPMF). The PPMF details how the council's strategic and operational plans are linked and how progress against these plans will be monitored and reported.
136. In July 2012 the council agreed the Action Plan 2012/13 that '*sets out targets, timescales, responsibilities and monitoring arrangements for a demanding work programme over the early months of the new council*'. Progress on the Action Plan will be reported to the Executive Committee and full council on a six monthly basis.

Community/user engagement

137. The Shetland Partnership is the Community Planning Partnership for the Shetland Islands Council area, providing a framework for partnership working in Shetland. A Partnership Guide has been developed and is available on the council's website. The guide sets out the remits and membership of the various elements of the partnership, including the Performance Group.

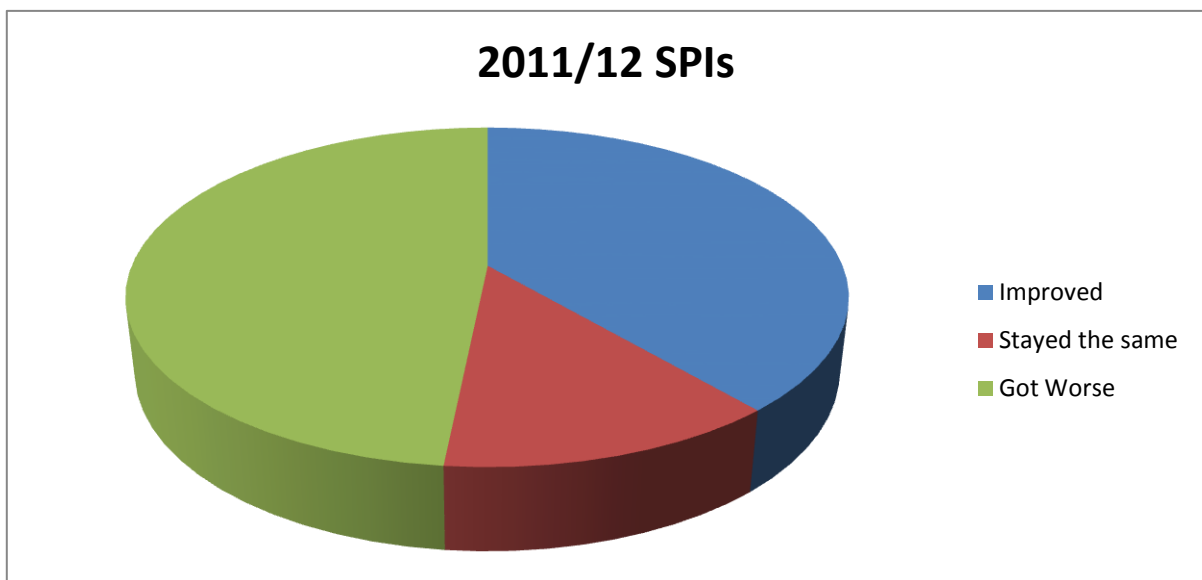
138. The council's internet site includes an 'Our Performance' page that includes strategic and operational council and community plans, together with the PPMF and other documents outlining the council's performance management arrangements.

Overview of performance in 2011/12

Statutory performance indicators

139. In 2011/12, a total of 62 SPIs were required and, overall, these indicate a decline in performance. There were 24 SPIs showing improved performance, 8 staying the same and 30 showing a decline in performance.

Exhibit 3: Improvements demonstrated by SPIs



140. Areas of improvement include benefit administration and asset management. Areas where performance has declined include sickness absence, home care, roads and lighting, planning applications, sport and leisure management and waste management.
141. The 2011/12 SPIs were reported to the Audit and Standards committee in September 2012 and a follow-up report will be presented to the next committee comparing the council's performance to other local authorities. The committee will then have the opportunity to further scrutinise the council's performance, seek explanations for poor performance and consider improvement actions.

Refer Action Plan No 8

Local performance reporting

Maintaining Scotland's roads: a follow-up report

142. This report examined the council's progress on implementing the recommendations contained in our national report published in November 2004, with particular emphasis on the change in

condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:

- the overall condition of Shetland's roads has deteriorated with the percentage of roads requiring maintenance treatment intervention increasing from 38.3% in 2008/09 to 43.7% in 2011/12
- while the council has made good progress in developing its Road Asset Management Plan significant work is still required to improve the quality of information and to include all roads assets in the plan
- a key area of risk to the council's effective management of road assets is the impact of any lack of funding. It is therefore essential that future funding requirements are included in the Road Asset Management Plan.

143. A number of areas for improvement were identified, and an action plan has been agreed with officers to address these weaknesses.

National performance reports

144. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 4:

Exhibit 4: A selection of National performance reports 2011/12

- | | |
|---|---|
| • Commissioning social care | • Shetland Islands Council - statutory follow up report |
| • The National Fraud Initiative in Scotland | • Reducing greenhouse gas emissions |
| • An overview of local government in Scotland - challenges and change in 2012 | • The role of community planning partnerships in economic development |
| • Highlands and Islands Fire and Rescue Board | • Modernising the planning system |
| • | • Transport for health and social care |

Source: www.audit-scotland.gov.uk

An overview of local government in Scotland - challenges and change in 2012

145. This report provided an overview of the challenges, risks and opportunities faced in 2012 by local government, Key priorities in the report included the following;

146. Over-arching priorities

- Maintaining a focus on best value, governance and equality to improve services and outcomes for people and communities.
- Identifying priorities taking account of existing commitments, the shift in focus to preventative spending and organisational capacity.

- Monitoring the 2012/13 budget and setting budgets for 2013/14 which achieve a balance between short-term aspirations and long-term sustainability.
- Ensuring workforce reductions do not erode capacity, getting asset management right and securing further progress on procurement.

Leadership and governance

- Providing strong leadership and challenge in a period of increasing resource and demand pressures and substantial service and structural change.
- Ensuring appropriate access and influence for the statutory officer for finance and effective financial controls.

Working in partnership

- Getting the best from partnership working by delivering more integrated services, better value for money and improved outcomes.
- Ensuring partnership performance information systems are sound and that accountabilities are clear.

Options for service delivery

- Engaging with communities to understand service users' and communities' needs.
- Investigating new ways of delivering service, including opportunities for simplifying and standardising common processes.

Performance information

- Ensuring good-quality performance information is available to support improvement and inform decision-making.
- Increasing the focus on costs and on measures which monitor partnership outcomes and performance.

147. The report highlights that during 2010/11 most councils operated within budget but makes clear that local authorities will have to deal with further budget reductions while delivering best value services. Reference is also made for the need to address backlogs in maintaining assets and improvements to existing procurement practices.

148. The report was presented to the Audit and Standards committee in June 2012.

Modernising the planning system

149. The planning system provides the framework for deciding how land is used, how communities take shape and how new developments look and work. It has to balance economic, environmental and community priorities and is central to achieving the Scottish Government's goal of sustainable economic growth and to Scotland's economic recovery.

150. The report assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. The report evaluated the overall progress

made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications.

151. The report was presented to the Audit and Standards committee in December 2011.

Progress against audit risks identified in the SRA

152. The Local Area Network (LAN), consisting of the principal scrutiny bodies in Scotland (i.e. Audit Scotland, the Care Inspectorate, the Scottish Housing Regulator, and Education Scotland) completed its third shared risk assessment (SRA) in Spring 2012 and reported its findings in an Assurance and Improvement Plan (AIP). The AIP was presented to the Audit and Standards Committee in June 2012.

153. The AIP highlighted that the council had made good progress on implementing a number of important elements of its Improvement Plan however there were areas where further improvements were still required.

154. There were only three areas where the AIP identified a change in risk assessment:

- Housing: moved from an area of uncertainty to an area where no significant scrutiny risks were identified.
- Vision & Strategic Direction: moved from an area of significant scrutiny risk to an area of uncertainty.
- Financial Position: moved from no identified scrutiny risks to an area of uncertainty.

155. The AIP identified two unchanged areas of uncertainty (Performance Management & Improvement and People Management) and three unchanged areas of significant risk are Governance & Accountability, Asset Management, Procurement and Information Management and Financial Management.

156. The council's Improvement Plan addresses the risks identified in the AIP and progress on delivery of this plan is highlighted in the following section of this report.

Progress on delivery of the council's best value improvement plan

157. The latest progress report on the council's Improvement Plan was submitted to the council in September 2012 and reported solid progress across the range of areas of risk. Reported areas of good progress include:

- **Partnership Working and Community Leadership & Engagement**
 - Community Planning Partnership governance approved in May 2012.
 - Community Plan adopted by all partners in May 2012.
- **Performance Management, Improvement and Risk Management**
 - Key plans Council Action / Savings / Improvement / Directorate and Service plans updated and endorsed by the council in June / July 2012.
 - All Corporate / Departmental / Service Plans included relevant risk management as part of reporting to council in June / July 2012.

- Regular reporting of performance and progress to CMT / council in line with PPMF from November 2012 using Covalent.
- **Financial Management**
 - A five year Medium Term Financial Plan was agreed by the council on September 2012. The plan has been built following 3 council seminars and regular communication with Directors through the Directors for Change group. The plan aligns the available resources to the council's priorities.
- **Governance and Accountability**
 - Councillor Development Programme in place. Prioritised training in Licensing, Planning, Recruitment & Selection and Audit & Standards have taken place.
 - Skills Framework (Self-evaluation tool), Development Plan and Development Log structures are due to be agreed by councillors by the end of 2012.
- **People Management**
 - Draft Learning and Development programme reported to CMT and further work now underway to explore delivery methods and costs.
 - Review of Employee Appraisal policy is underway and on target.

Outlook

158. A further Controller of Audit follow-up review on the council's progress on its Improvement Plan will be carried out and reported in November 2012.
159. The council will also receive a Best Value audit during 2013/14. The timing of this has been moved back from 2012/13 to allow additional time for the council to make further progress with its Improvement Plan.
160. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.
161. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the council in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit & Standards Committee
Annual Audit Plan	2 February 2012	16 February 2012
Shared Risk Assessment/Assurance and Improvement Plan	13 April 2012	7 June 2012
Internal controls management letter	30 July 2012	14 August 2012
Maintaining Scotland's roads - follow-up review	31 August 2012	27 September 2012
Report on financial statements to those charged with governance	20 September 2012	27 September 2012
Audit opinion on the 2011/12 financial statements	27 September 2012	27 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	5 October 2012	-
Report to Members on the 2011/12 audit	31 October 2012	December 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	<p>Financial Resources</p> <p>The considerable improvements made in the financial statements process require to be sustained.</p> <p>Risk: There are inadequate resources in the Finance Section to deliver good quality financial statements for the 2012/13 audit and to prepare financial information to support members' decision-making.</p>	<p>Finance Services recently underwent a restructure where additional resources were added to the Accountancy function from other parts of finance, whilst ensuring that the overall staffing budget did not increase.</p> <p>Recently the council's financial accountant left the organisation, but recruitment is already underway to secure a replacement.</p>	Executive Manager - Finance	31 March 2013
2	<p>Capital Programme</p> <p>The impact on service delivery from the substantial slippage in the capital programme is not adequately reported to members.</p> <p>Risk: Council decisions on the capital programme have an unexpectedly adverse impact on services.</p>	<p>Restructuring within Capital Programme Service has enhanced the ability to challenge Budget Responsible Officers as to their reported position on project progress. Capital Programme Service will be working alongside Finance Service to develop the capital programme for 2013/14 and beyond alongside the setting of revenue budgets, as opposed to treating it as a separate exercise.</p>	Executive Manager - Capital Programmes	31 March 2013

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	<p>Procurement</p> <p>The council may not achieve the required improvement in its PCA score.</p> <p>Risk: The council does not achieve best value through its procurement arrangements.</p>	<p>The council's Procurement Manager has been working closely with Scotland Excel to identify key areas where the council can improve its performance or where it can better evidence existing good practice. An improved PCA score is anticipated at the assessment in November 2012.</p>	Executive Manager - Capital Programmes	31 March 2013
4	<p>Workforce</p> <p>The medium term financial plan will impact on the council's workforce.</p> <p>Risk: Inadequate workforce planning arrangements have a detrimental impact on service delivery.</p>	<p>The newly formed HR Partnership Group will ensure consultation and consideration of plans and reviews and impact on staff are addressed. A new People Strategy will provide overarching framework for workforce planning.</p>	Executive Manager - HR	31 December 2012
5	<p>Financial Risks</p> <p>The medium term financial plan includes a number of challenging financial assumptions, particularly the level of investment income.</p> <p>Risk: The financial plan is not delivered.</p>	<p>The financial assumptions within the MTFP will be reviewed on an annual basis and updated for any developments that occur during the year. A provision for financial healthchecks has been build into the MTFP to assess progress and key stages throughout the next 5 years to ensure that action can be taken if there is a deviation from the plan.</p>	Executive Manager - Finance	Annual review

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	<p>Risk Management</p> <p>The council's risk registers are not fully completed and owned by departments.</p> <p>Risk: Risks to the council may exist and be uncontrolled due to the lack of a comprehensive up to date risk register.</p>	Work is ongoing to fully complete departmental risk registers.	Executive Manager - Governance and Law	31 March 2013
7	<p>ICT Strategy</p> <p>An updated ICT Strategy is being developed which includes improvements in ICT infrastructure and new applications.</p> <p>Risk: In the absence of a more focused strategy, ICT may not support changing business needs.</p>	In progress. Information gathering completed in August 2012, including consultation with all Service. Draft ICT Strategy to ICT Management Board in November 2012 with Final Report for approval of council thereafter.	Executive Manager - ICT	December 2012
8	<p>Performance</p> <p>Overall the council's 2011/12 SPIs show a decline in performance.</p> <p>Risk: The council cannot maintain quality services, particularly in light of the significant savings required over the next few years.</p>	Service performance will be monitored regularly in line with PPMF arrangements.	Executive Manager - Performance and Improvement	31 March 2014