



## **Shetland Islands Council**

### Annual report on the 2013/14 audit

Prepared for the members of Shetland Islands  
Council and the Controller of Audit

October 2014



# Contents

Key messages .....	3
Financial statements .....	8
Financial position .....	12
Governance and accountability .....	16
Best value, use of resources and performance .....	22
Appendix I – Summary of Shetland Islands Council local audit reports 2013/14.....	27
Appendix II – Summary of Audit Scotland national reports 2013/14 .....	28
Appendix III – Significant audit risks.....	29
Appendix IV – Action plan .....	32

## Key contacts

Dave Mc Connell, Assistant Director

[dmcconnell@audit-scotland.gov.uk](mailto:dmcconnell@audit-scotland.gov.uk)

Carol Hislop, Senior Audit Manager

[chislop@audit-scotland.gov.uk](mailto:chislop@audit-scotland.gov.uk)

Iain Lochhead, Senior Auditor

[ilochead@audit-scotland.gov.uk](mailto:ilochead@audit-scotland.gov.uk)

Audit Scotland  
4th floor (South Suite)  
Nelson Mandela Place  
Glasgow  
G2 1BT

Telephone: 0131 625 1500

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Key messages

### Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.

### Financial position

- The actual draw on reserves for 2013/14 was £14.9 million which was £11.7 million less than budgeted.
- Usable reserves have increased by £18.1 million to £240.9 million.
- The General Fund balance has increased by £10.3 million to £13.9 million.
- Financial management remains strong with a robust budget setting process in place.

### Governance & accountability

- The council had sound governance arrangements in place.
- Systems of internal control operated effectively.

### Best Value, use of resources & performance

- The council continues to develop its arrangements for monitoring and reporting performance against strategic priorities.
- Substantial progress has been made towards delivering the objectives set out in its Corporate Plan.

### Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective partnership working will be essential to make the best use of available resources as well as continued strong governance and leadership.

### Financial Statements

1. We have given an unqualified audit opinion that the 2013/14 financial statements of Shetland Islands Council give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of Zetland Educational Trust registered by Shetland Islands Council and audited under the provisions of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
3. Overall, the council's 2013/14 draw on reserves was £14.9 million which was £11.7 million less than budgeted.
4. The General Fund budget included a requirement to achieve savings of £12.6 million from service reviews, efficiency initiatives and one-off savings. The council achieved a total savings figure of £20.3 million which was £7.7 million more than planned. The additional savings were mainly due to a drive across all services to reduce expenditure.
5. As a result of slippage, capital expenditure of £13 million was £2.8 million less than budget.
6. Financial management remains strong with close budget monitoring and regular reporting to members.

### Financial position

7. The closing balance of usable reserves at 31 March 2014 was £240.9 million, representing a net increase of £18.1 million from 2012/13. The council's mid-term financial policy is to maintain a minimum reserves level of £150 million.
8. The net movement in the General Fund balance for 2013/14 was £10.3 million, increasing the general fund balance to £13.9 million as at 31 March 2014. This is made up of earmarked commitments of £1.1 million and an unallocated balance of £12.8 million.
9. The net movement in capital reserves was £31.7 million in 2013/14, decreasing the balance to £71.8 million at 31 March 2014.
10. Other Revenue and Statutory Funds increased by £37.6 million to £153.3 million.
11. The council's 2014/15 budget requires cost savings of £6.5 million (6% of 13/14 budget). The council aims to deliver these savings through a combination of increased or new charges, service re-designs and efficiencies.

### Governance and accountability

12. Overall, in 2013/14, the council had sound governance arrangements which included a number of standing

## Introduction

committees overseeing key aspects of governance. The council had an effective system of internal control.

13. In their 2012/13 annual report, internal audit highlighted compliance with Council Standing Orders for Tenders and Contracts and Small Contracts Procedures as a specific area of concern. In their 2013/14 annual report, internal audit highlighted that there are *'still substantial issues of concern notably in Ferries and Ports & Harbours'*. The council's Standing Orders for Tenders and Contracts and Small Contracts Procedures have been revised and improvements have been made within Infrastructure Services to address this issue.
14. In July 2014, Shetland NHS Board and the council approved the Body Corporate as the preferred model for Health and Social Care Integration in Shetland. A steering group exists to deliver the Transition Programme required to implement the chosen model. It will be challenging for the council to have the appropriate governance arrangements in place by the government deadline of 1 April 2015.

## Best Value, use of resources and performance

15. The council continues to develop its Planning and Performance Management Framework which sets out its arrangements for monitoring and reporting performance against the council's priorities.

16. In May 2014, the council reported substantial progress towards delivering the objectives set out in its corporate plan.

## Outlook

17. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.
18. In May 2014 the council agreed to proposals to revise its governance arrangements. This included changes to the names and remits of a number of committees.

## Introduction

19. This report is a summary of our findings arising from the 2013/14 audit of Shetland Islands Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
20. Our responsibility, as the external auditor of Shetland Islands

## Introduction

Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

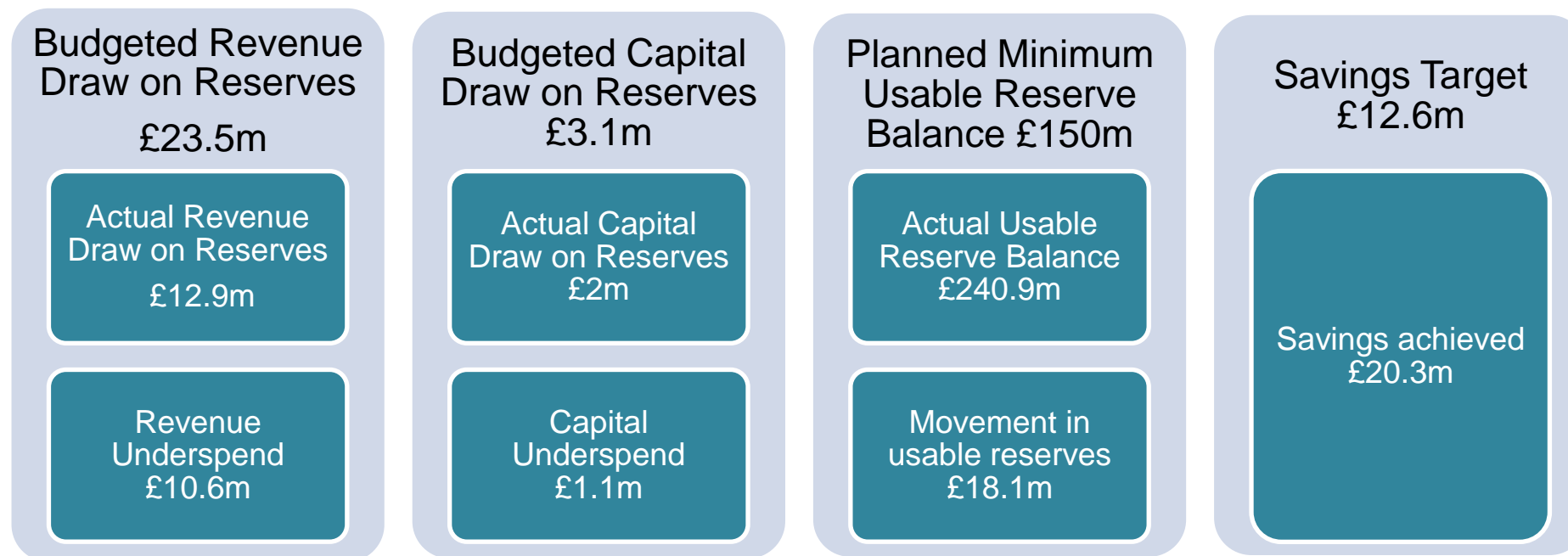
21. The management of Shetland Islands Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
22. This report is addressed to the members of Shetland Islands Council and the Controller of Audit and should form the basis of discussions with the council as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
23. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's 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.
24. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. 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 Shetland Islands Council.
25. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit, we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. In our annual audit plan, we set out the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed these in arriving at our opinion on the financial statements.
26. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
27. We recognise that not all risks can be eliminated or even minimised. What is important is that Shetland Islands Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and

## Introduction

monitor outcomes.

28. In this report we have included only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
29. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

## Financial statements



### Audit opinion

30. We have given an unqualified opinion that the financial statements of Shetland Islands Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.

### Other information published with the financial statements

31. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.



### Legality

32. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

### The audit of charities financial statements

33. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
34. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of Zetland Educational Trust.

### Group accounts

35. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
36. Shetland Islands Council has accounted for the financial results of two subsidiaries and two associates in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £117.1 million.

37. The net assets of the group at 31 March 2014 totalled £597 million, compared to a net asset position of £541.3 million in 2012/13. The positive movement in the closing net worth balance is partially due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of the £31.3 million pension liabilities of Police and Fire from the group accounts.

### Accounting issues arising

#### *Presentational and monetary adjustments*

38. A number of presentational adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. There were no monetary adjustments made to the financial statements as a result of our audit.
39. There was one unadjusted error of £11,000 identified during the course of the audit, but there would have been no material effect on the financial statements if the adjustment had been made.

#### *Whole of government accounts*

40. The whole of government accounts are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the

## Financial position

deadline. This has been audited and the audited return submitted to the Scottish Government.

## Report to those charged with governance

41. On 23 September 2014 we presented our report to those charged with governance (ISA 260) to the Audit Committee. The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. There were no significant issues identified.

## Outlook

42. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards required to be adopted in 2014/15 include :
- IFRS 10 Consolidated financial statements
  - IFRS 11 Joint arrangements
  - IFRS 12 Disclosures of interests in other entities
  - IAS 28 Investments in associates and joint ventures.
43. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.
44. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the council by 30 September with publication on the council's website by 31 October.
45. Highways assets (roads and street lighting) are currently carried within infrastructure assets in the balance sheet at depreciated historic cost of £71.8 million. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.
46. We understand that there will be staff changes within Finance Services during 2014/15 and, in particular, a change to the Section 95 officer. This is a key position within the council for

## Financial position

ensuring that effective financial planning and management arrangements are in place. The Section 95 officer also has an obligation to ensure that the council's financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. There is risk that good quality draft financial statements and working papers may not be submitted for audit as a result of changes within Finance Services.

### **Refer Action Point 1**

47. Major updates to the General Ledger system are planned during 2014/15 (for example changes to authorisation and reporting processes). It is important that these updates are properly managed and tested to ensure that the key internal controls of the council's financial systems continue to operate effectively.

## Financial position

48. The council reported a surplus of £32 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £10.3 million.
49. The 2013/14 budget, approved by the council on 11 December 2013, had a planned total draw on reserves of £26.5 million that included £12.6 million of budgeted savings. As the council secured higher than expected levels of savings of £20.3 million, the actual total draw on reserves was £14.9 million.
50. The council's draw on reserves for revenue purposes was £10.6 million less than budgeted. This was as a result of
- An underspend across services of £7.7 million
  - Housing Revenue Account underspend of £1.0 million
  - Harbour Account exceeded surplus of £1.9 million.
51. As a result of slippage in the capital programme the council's draw on reserves for capital purposes was £1.1 million less than budgeted.

The council's strategic financial management plans require, in the medium term, a minimum usable reserve balance of £150 million. As shown in Exhibit 1, the overall level of usable reserves held by the council increased by £18.1 million

compared to the previous year and totalled £240.9 million.

### Exhibit 1: Usable reserves

Description	31 March 2013	31 March 2014
	£ million	£million
General Fund	3.6	13.9
Capital Reserve Fund	103.5	71.8
Capital Grants Unapplied	0.0	1.9
Other Funds	115.7	153.3
<b>Total Usable Reserves</b>	<b>222.8</b>	<b>240.9</b>

Source: Shetland Islands Council 2013/14 financial statements

52. The movements in the reserves includes
- £10 million draw on HRA debt contingency
  - £15 million transfer to the Equalisation Fund
  - £11 million transfer to the Development Loans Fund
  - £15 million draw on reserves for revenue and capital spend
  - £11 million of investment income.
53. The closing usable reserve balance at 31 March 2014 is made up of a number of earmarked commitments. The main

## Financial position

commitments include

- Capital Fund of £62.2 million
- Repairs & Renewals Fund of £45.7 million
- Harbour Contingency of £41.6 million.

## Capital investment and performance 2013/14

54. Total capital expenditure for 2013/14 was £13 million. The most significant capital spends included
- £2.8 million for Phase 3 of Shetland College
  - £1.0 million for Walls Pier
  - £0.5 million for vehicles and plant
  - £0.5 million for broadband provision for remote council premises.
55. The council reported a total underspend of £2.8 million against the planned level of capital expenditure (17.6% of the total programme for 2013/14). The main reasons for this slippage were underspends in the following areas:
- Economic Development – £390k
  - Shetland College - £416k
  - HRA –£653k
  - Harbour Account – £874k
56. A certain level of slippage on capital projects can often occur, particularly in complex projects. However significant delays

may have an impact on the council's Medium Term Financial Plan (MTFP) and on the council's ability to meet its objectives and deliver services.

**Refer Action Point 2**

## Treasury Management

57. As at 31 March 2014, the council did not have any external borrowings. Funds held for investment at 31 March 2014 were £203.5 million (£205.7 million at 31 March 2013). Realised gains on investments due to de-recognition and revaluation amounted to £43.7 million (£28.9 million in 2012/13). The movement in realised gains reflects the decision by the council to change its investment strategy during 2013/14 which resulted in a higher level of disposals required in order to transfer funds between fund managers.
58. In June 2013 the council agreed the Investment Strategy 2013 - 18 that is intended to
- support the council's Medium Term Financial Plan
  - reduce fund manager fees
  - lower the risk of large negative returns whilst maintaining similar levels of return to that achieved in recent years.
59. The new Investment Strategy required changes to the way the council's funds are invested. An active equity mandate was

## Financial position

replaced with a passive equity mandate and a diversified growth fund mandate was added to the strategy. There have also been changes to the council's fund managers.

60. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils, including Shetland Islands Council. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in December 2014.

## Outlook

### 2014/15

61. The revised 2014/15 budget of £130.3 million requires a revised total draw on reserves of £20.7 million. This is a lower draw on reserves than was budgeted in 2013/14, but is still higher than the actual draw on reserves during the year of £14.9 million. The financial position of the council remains challenging in the current year.
62. In August 2014, the council's projected 2014/15 outturn position was a total underspend of £4.2m against the revised budget. This includes underspends of £1.4 million on revenue,

£2.1 million on capital and £0.7 million on spend to save initiatives.

### *Medium Term Financial Plan (MTFP)*

63. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the realisation of cost savings in previous years.
64. The council updated its MTFP in July 2014. The MTFP sets out its five year plan to deliver a budget with a sustainable draw on reserves and will require
- savings of £10.5 million to be made over the next three years
  - a possible net draw on reserves of over £8.2 million over the next five years (total draw of £72.2 million and expected income of £64.0 million).

**Refer Action Point 3**

### *External Borrowing*

65. The council has not had any external borrowing for 20 years and has had a policy to fund all capital expenditure from its reserves. However, in December 2013, the council agreed a new Borrowing Policy and Strategy in order to
- secure best value in the financing of capital expenditure

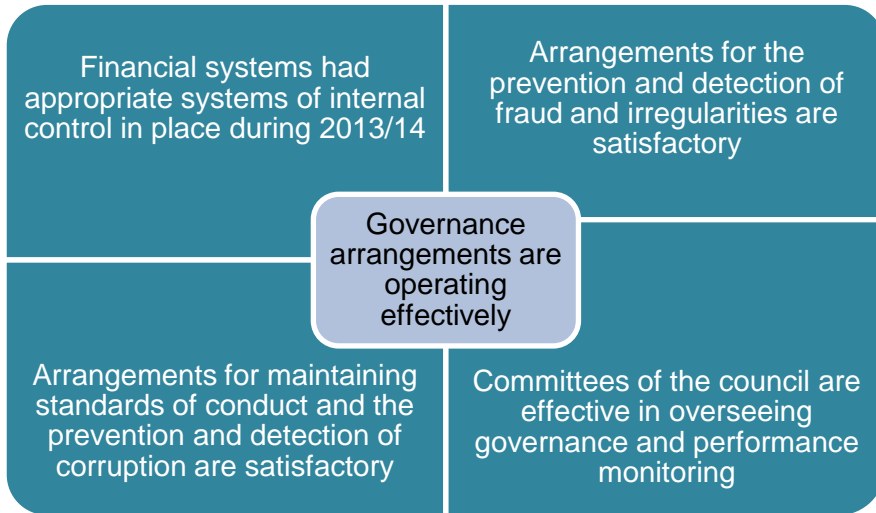
## Financial position

- maintain reserve levels.

66. The two capital projects currently proposed by the council for external borrowing are the Anderson High School (expected cost of £42 million) and Housing Revenue Account historical internal borrowing (debt of £16 million as at 31 March 2014). There is a risk that best value is not achieved through external borrowing.

**Refer Action Point 4**

# Governance and accountability



67. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Shetland Islands Council and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

68. In May 2014, the council agreed to proposals to improve its corporate governance arrangements and this will result in changes to the role and remit of some committees. These

changes have yet to be agreed. The committees affected by these changes are

- Policy and Resources Committee
- Audit Committee
- Social Services Committee
- Assets and Treasury Sub-committee
- Shetland College Board.

69. Within Shetland Islands Council the corporate governance arrangements are supported by the following standing committees:





## Governance and accountability

70. The council also has the following functional committees:



71. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Shetland Islands Council are operating effectively.

### Internal control

72. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll, general ledger, cash and banking, trade payables, trade receivables, capital accounting, non-domestic rates, council tax and treasury. Our overall conclusion was that the council's financial systems had appropriate systems of internal control in place during 2013/14.

73. In our 2012/13 report we highlighted that compliance with Standing Orders for Tenders and Contracts and Small

Contracts Procedures was a specific area of concern for the council. The council has reported that this continued to be a problem area during 2013/14.

74. The council has revised its Standing Orders for Tenders and Contracts and Small Contracts Procedures and improvements have been made within Infrastructure Services. This includes incorporating compliance with standing orders within the performance measures that are regularly reported to committee. The council also reviewed procurement of goods, work and services within Ferries and Ports and action plans have been established to ensure future compliance. We will continue to monitor the council's progress in this area.

**Refer Action Point 5**

### Internal audit

75. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate

76. Our review of internal audit concluded that the internal audit service operates satisfactorily. The 2013/14 internal Audit

## Governance and accountability

annual report stated that Internal Audit substantially complies with the Public Sector Internal Audit Standards.

### ICT audit

77. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non-compliance issues. The council obtained a compliance certificate in October 2013 which we understand will be valid until the next compliance deadline of January 2015.
78. The new security requirements have had an impact on some of the council's working arrangements. While no services have been removed there have been some changes to how they are delivered. For instance, employees are now less likely to use remote access systems or use their own mobile devices for service delivery.
79. The time and resources spent on ensuring PSN compliance has delayed and/or reduced other planned ICT projects (e.g. Absence Management System and electronic payslips).
80. Following a review of ICT stock control arrangements in August 2013, Internal Audit reported that *'the current manual stock*

*control system is insufficient to ensure the security and correct record of assets held at ICT'*. An action plan has been put in place to address the issues raised by Internal Audit including revised stock control procedures. We will continue to monitor the council's arrangements for stock control.

### Arrangements for the prevention and detection of fraud

81. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
82. Shetland Islands Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
83. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

### Arrangements for maintaining standards of conduct and the prevention and detection of corruption

84. The arrangements for the prevention and detection of corruption in Shetland Islands Council are satisfactory and we

## Governance and accountability

are not aware of any specific issues that we need to record in this report.

### Integration of adult health and social care

85. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the council will need to engage at the highest level with the relevant health bodies in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.
86. In July 2014 Shetland NHS Board and the council approved the Body Corporate as the model for Health and Social Care Integration in Shetland.
87. A steering group was established to deliver the Transition Programme and to coordinate and link the projects and work streams required to implement Shetland's chosen model for health and social care integration.
88. The priority for the Transition Programme is to prepare reports for the Council and the Health Board by December 2014 seeking approval of an Integration Scheme including:

- the budgets for 2015/16 and the budget allocations for the Body Corporate
- the functions to be delegated to the Body Corporate
- the governance arrangements for the Body Corporate
- the localities model of integration for Shetland.

89. In addition, work has begun on developing a Joint Strategic Planning Process to deliver a Joint Commissioning Strategy and Strategic Plan for the new Health and Social Care Partnership. This will build on the existing arrangements established under Shetland's Community Health and Care Partnership.
90. On 1 October 2014 the council reported that the main risk to the delivery of the Body Corporate model by 1 April 2015 is the challenging timescale for delivering the Integration Scheme, particularly in relation to the delegated functions and associated budgets and the localities model.

**Refer Action Point 6**

### Welfare Reform

91. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the

## Governance and accountability

Universal Credit and there is the potential for further reforms after the recent Scottish independence referendum.

92. The council has been monitoring and planning ahead to mitigate against the impact of the reforms. The council is represented on the Shetland Financial Resilience Welfare Reform sub-group which considers the impact of welfare reform changes.
93. Since the introduction of the “Spare Room Subsidy” in April 2013 there have been 173 households in Shetland that have been affected by the change. However due to Discretionary Housing Payment, no households in Shetland have suffered any financial impact from under occupancy.
94. The council reported rent arrears of £161,000 as at 31 March 2014 (2013: £137,000) relating to 319 properties (2013: 306).

## Housing and council tax benefits performance audit

95. In June 2014, an Audit Scotland report on behalf of the Accounts Commission identified some risks relating to the performance of benefit services across councils and their ability to deliver improvements going forward. Key risks identified were:
  - Having sufficient, experienced staff is a significant issue for a number of councils. Experienced officers have left

many benefit services and councils have had difficulty in some instances in replacing these officers. Where staff members have been replaced, the incoming officers have required significant training before becoming fully effective.

- A lack of effective planning and management of major projects such as IT system implementations. In particular, not planning effectively for the disruption to normal service levels and returning to target service performance levels.
96. These are relevant risks to the council and present a significant challenge to the delivery of improvements in this area.

**Refer Action Point 7**

## Outlook

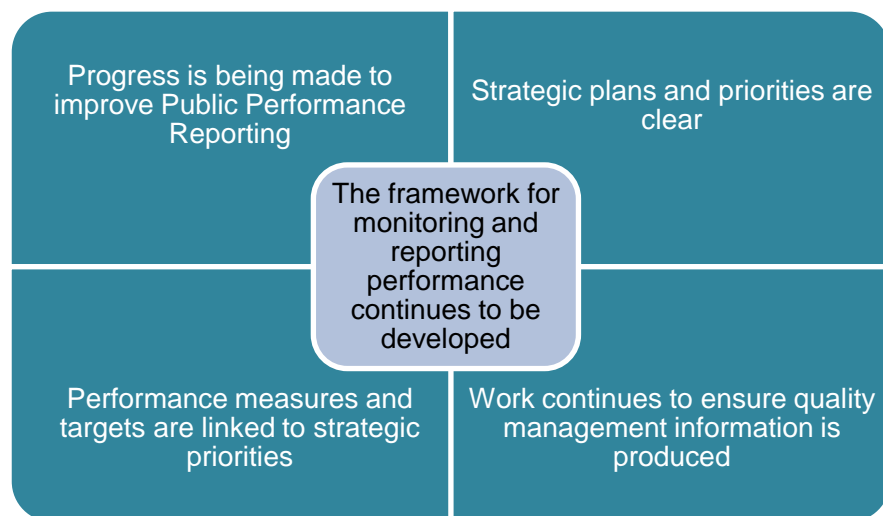
97. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage at the highest level with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.
98. There are to be major changes in councils’ responsibilities for

## Governance and accountability

the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that council arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS.

99. Due to its small size the council's benefits team does not include any fraud officers. The benefits team refers cases to the DWP Fraud Investigation Team for investigation or makes referrals direct to the police. As such there will be no officers from the benefits team transferred to the DWP.
100. The political context in 2014 has been particularly challenging with the referendum on Scottish independence. Following the referendum there is the potential for even further change and discussions are likely on local services, governance and accountability.

## Best value, use of resources and performance



101. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and

other stakeholders know what quality of service is being delivered and what they can expect in the future.

### Arrangements for securing Best Value

- 102. The council's arrangements for securing best value are set out in its Best Value framework that forms part of its overall Planning and Performance Management Framework.
- 103. The Best Value framework is linked to the council's Corporate Plan and the Change Programme which are linked to Directorate plans. The framework sets out the council's best value principles and aligns these principles to strategic objectives and improvement outcomes.
- 104. In recent years the council has made significant progress in establishing arrangements to deliver best value. The council continues to work to improve these arrangements.

### Use of resources

#### *Asset Management*

- 105. In December 2013 the council agreed its five year Asset Investment Plan 2014-19 which is aligned with its Medium Term Financial Plan. The focus of the Asset Investment Plan is on the maintenance of existing assets rather than the creation of new assets. The main exception to this is the new Anderson High School.

106. Each year, as part of the annual budgeting process, an annual asset investment plan is agreed. Quarterly monitoring reports on capital expenditure are submitted to committee, detailing the progress of capital projects within the current financial year.

### *Workforce Management Plan*

107. The council continues to develop arrangements to manage its staff and has a number of policies and procedures in place covering staff development, performance management and attendance. However the council does not have a documented workforce strategy in place. The development of a workforce strategy is one of the objectives of the Corporate Plan and it is intended that a strategy is in place by the end of 2014.

**Refer Action Point 8**

### *Risk Management*

108. A Corporate Risk register is now in place and work is ongoing to ensure risk registers are up to date. On 31 July 2014 the responsibility for risk management was transferred to Internal Audit. Further work is required to develop and improve risk management arrangements to ensure that risk management is fully embedded across the council and that it forms an integral part of performance and improvement. Such arrangements should include the monitoring and managing of strategic and operational risks.
109. Internal Audit's 2013/14 annual plan highlighted that *'there are*

*a number of areas in relation to risk management that still require to be improved corporately.'*

**Refer Action Point 9**

### *Procurement*

110. 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. In May 2014, the council reported a 2013 PCA assessment as 35% (33% in 2012) against the average score across Scottish councils of 56%. The council has established a PCA Improvement Plan to help deliver further improvement.

**Refer Action Point 10**

### **Performance management**

111. The council is committed to having a strong framework in place for monitoring and reporting performance. The Planning and Performance Management Framework (PPMF) is regularly updated as the council's arrangements for improving performance continue to be developed. The latest update in May 2014 was made to clarify
- the integration of Financial and Service Planning timetables
  - the link between planning and risk management.

112. The PPMF sets out the arrangements for delivering corporate objectives including the planning, monitoring and reporting arrangements. It shows how operational objectives are linked to strategic objectives, who has accountability for each plan and who has responsibility for each process.
113. We are pleased to note the council's progress towards developing robust and effective performance management arrangements. Effective arrangements are important to the delivery of the council's strategic and operational objectives. The council should continue to work to improve its performance management arrangements.

### Overview of performance targets in 2013/14

114. The Corporate Plan sets out ambitious objectives for the council. To help achieve these objectives, the council agreed a Change Programme that includes the key projects for 2013/14.
115. In May 2014, the council reported substantial progress against delivery of its Change Programme. Of the 32 agreed Change Programme actions, only one was reported as not achieved and this related to an overspend of £372,000 within Social Services.
116. In September 2014, the council reported progress against performance indicators which have been submitted to the Improvement Service as part of the Local Government Benchmarking Framework. In comparison to 2012/13, nine

indicators have improved and five have declined. Areas of improvement include non-teacher sickness absence and the cost of collection of council tax. Areas that have declined include teachers' sickness absence and attendance at pools and other sports and leisure facilities.

### Statutory performance indicators

117. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and the requirement for councils to take responsibility for the performance information they report.
118. The review of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely :
- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
  - SPI 2: covers a range of information relating to service



performance

- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

119. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material met the criteria used in the evaluation. The results for Shetland Islands Council were 0% fully, 76% partially and 24% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2015.

#### Refer Action Point 11

120. During 2013/14, the local audit team reviewed the council's PPR arrangements. Overall, we found that the council was committed to improving its arrangements and has plans in place to do so. There is room for improvement in the Council's arrangements for collecting, reporting and publishing performance information that the community would like to see.

## Assurance and Improvement Plan 2014-17

121. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Shetland Islands Council prepared by the Local Area Network of scrutiny partners for the council since the introduction of the shared risk assessment process. This has been published on Audit Scotland's website and was submitted to the council on 2 July 2014.

122. No areas were identified where further scrutiny was required. Areas identified where further information was required were:

- leadership and direction
- community engagement and empowerment
- asset management
- procurement
- risk management
- housing and homelessness.

123. We will revisit these areas as part of the Shared Risk Assessment process for 2014/15.

## Local performance audit reports

124. During 2013/14, we carried out a review of the impact of two of our national reports - 'Health inequalities in Scotland' (report published December 2012) and 'Major capital investment in

councils' (published March 2013). In both cases we found that the council had satisfactorily dealt with the issues raised in our reports.

### National performance audit reports

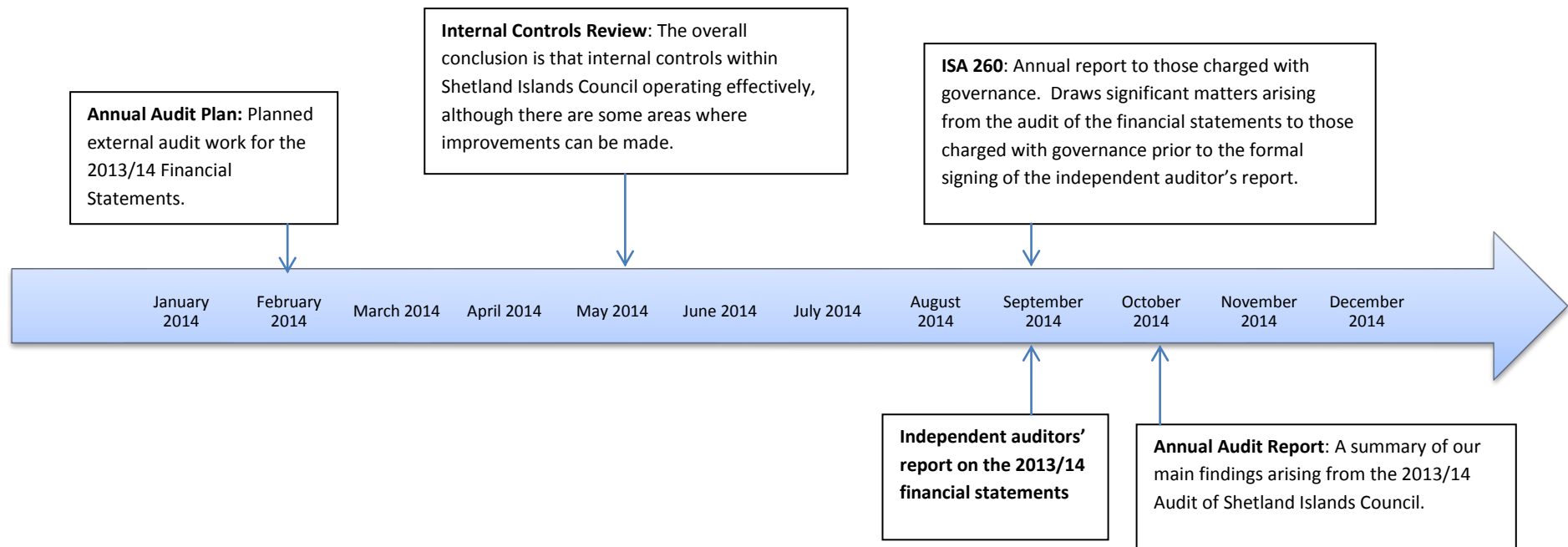
125. In August 2014, the council agreed revised arrangements to improve the way it deals with our national performance reports. All Audit Scotland reports will be considered by the relevant service committee and an action plan will be drawn up to address any recommendations. The Audit Committee will consider each report and action plan. Thereafter, the lead officer will confirm implementation of all agreed actions. Reports will be presented to the Audit Committee to monitor progress against action plans.
126. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

### Outlook

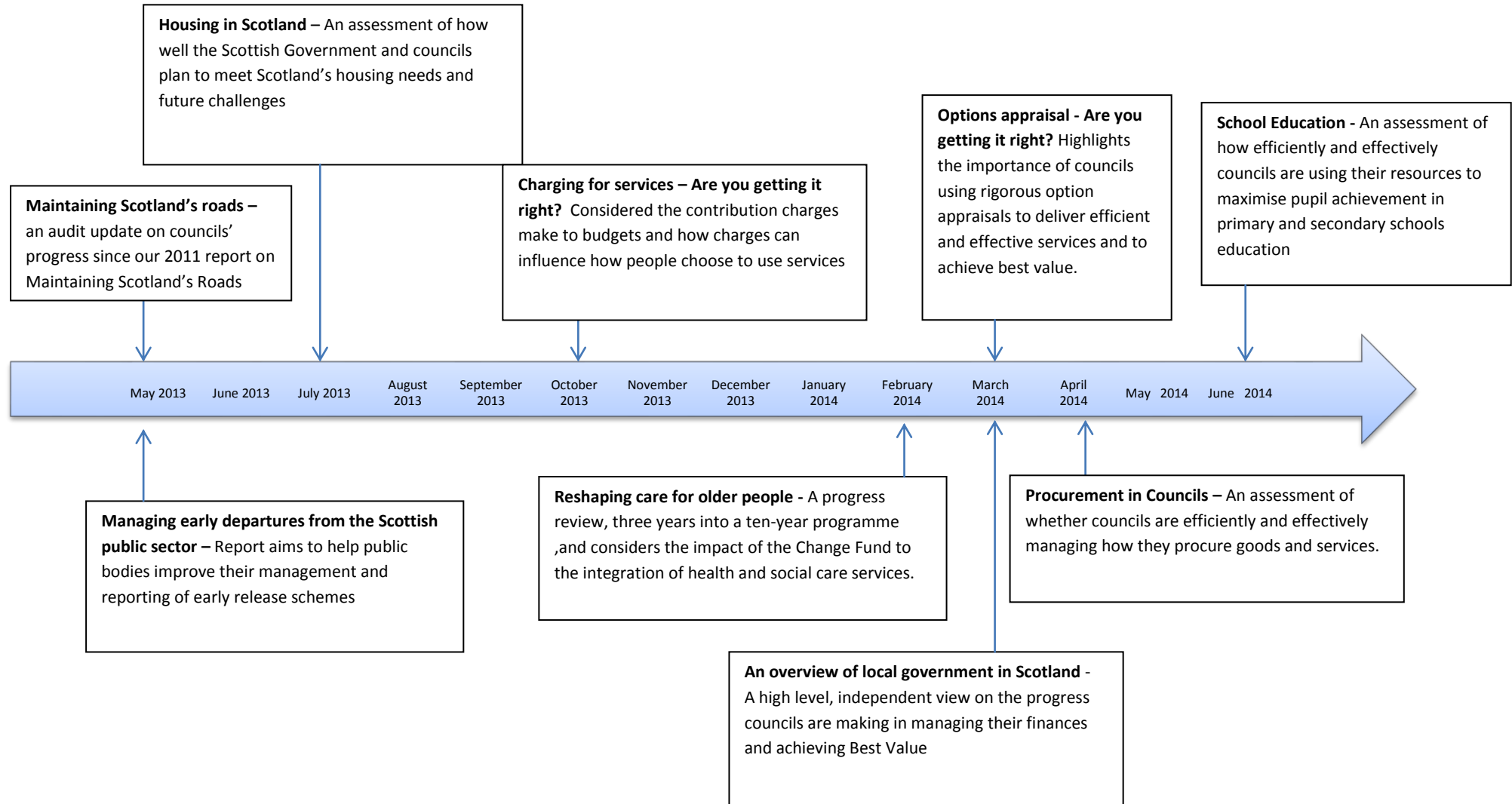
127. In common with other councils, Shetland Islands Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. The council has made significant savings in recent years and this has been accompanied by a reduction in the workforce.
128. In order to deliver its Medium Term Financial Plan, decisions faced by the council will become increasingly difficult, and the council will have to focus on making the best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

## Appendix I – Summary of Shetland Islands Council local audit reports 2013/14

---



## Appendix II – Summary of Audit Scotland national reports 2013/14



## Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p><b>Medium Term Financial Plan</b></p> <p>There is a risk that the council fails to successfully delivery it's MTFP and draws on reserves cannot be sustained.</p>	<ul style="list-style-type: none"> <li>• Reviewed financial management arrangements through monitoring of committee reports and attendance at council meetings</li> <li>• Audit of the 2013/14 financial statements</li> </ul>
<p><b>Housing Revenue Account</b></p> <p>If the HRA debt is not properly managed this may have an adverse impact on rents and capital investment in housing.</p>	<ul style="list-style-type: none"> <li>• Reviewed financial management arrangements through monitoring of committee reports and attendance at council meetings</li> <li>• Audit of the 2013/14 financial statements</li> </ul>
<p><b>Change Programme</b></p> <p>If the Change Programme is not properly managed the council may not be able to deliver its corporate plan.</p>	<ul style="list-style-type: none"> <li>• Reviewed performance management arrangements through monitoring of committee reports and attendance at council meetings</li> <li>• Audit of the 2013/14 financial statements</li> </ul>
<p><b>Standing Orders</b></p> <p>There is an ongoing risk of non-compliance with EU regulations and council's standing orders for contracts.</p>	<ul style="list-style-type: none"> <li>• Reviewed the work of Internal Audit</li> <li>• Reviewed governance arrangements through monitoring of committee reports and attendance at council meetings</li> </ul>

## Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Tendering Exercises</b></p> <p>If tender exercises do not result in affordable tenders the council may not meet its financial plans.</p>	<ul style="list-style-type: none"> <li>• Reviewed the work of Internal Audit</li> <li>• Reviewed governance arrangements through monitoring of committee reports and attendance at council meetings</li> </ul>
<p><b>Risk Management</b></p> <p>Until risk management arrangements are fully embedded the council cannot effectively manage its risks.</p>	<ul style="list-style-type: none"> <li>• Reviewed risk management arrangements through monitoring of committee reports and attendance at council meetings</li> <li>• Reviewed corporate risk register</li> </ul>
<p><b>Corporate Risk Register</b></p> <p>In the absence of a corporate risk register, strategic and operational decisions do not take account of appropriate risks.</p>	<ul style="list-style-type: none"> <li>• Reviewed risk management arrangements through monitoring of committee reports and attendance at council meetings</li> <li>• Reviewed corporate risk register</li> </ul>
<p><b>Performance Management</b></p> <p>Until effective performance management arrangements are fully embedded across the council the expected quality of services may not be delivered.</p>	<ul style="list-style-type: none"> <li>• Reviewed performance management arrangements through monitoring of committee reports and attendance at council meetings</li> <li>• Reviewed progress against targets through monitoring of committee reports and attendance at council meetings</li> </ul>

## Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Welfare Reform</b></p> <p>The council may not be adequately prepared for the impact Welfare Reform may have on service provision.</p>	<ul style="list-style-type: none"> <li>• Monitored progress through monitoring of committee reports and attendance at council meetings</li> <li>• Liaised with Policy Manager and obtained regular updates on the council's arrangements for addressing the impact of Welfare Reform</li> </ul>
<p><b>Partnership Working</b></p> <p>There is a risk that the council cannot deliver its challenging and ambitious community plans and therefore fails to meet its corporate objectives are not met.</p>	<ul style="list-style-type: none"> <li>• Monitored partnership working arrangements, in particular Health and Social Care Integration, through monitoring of committee reports and attendance at council meetings.</li> </ul>
<p><b>Workforce Management</b></p> <p>If the workforce is not effectively managed there is a risk that the council does not deliver its strategic or operational objectives.</p>	<ul style="list-style-type: none"> <li>• Monitored progress through committee reports and attendance at council meetings.</li> </ul>
<p><b>New Anderson High School</b></p> <p>The new AHS is not designed and built on time, within budget and to the agreed specification.</p>	<ul style="list-style-type: none"> <li>• Monitored progress committee reports and attendance at council meetings.</li> </ul>
<p><b>Group Accounts</b></p> <p>The group accounts disclosures in the financial statements do not include financial information for SCT</p>	<ul style="list-style-type: none"> <li>• Early planning of audit of 2013/14 financial statements with Finance</li> <li>• Audit of the 2013/14 financial statements</li> </ul>

## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/46	<p><b>Changes to Finance Services</b></p> <p>There will be changes to the Finance Service during 2014/15, with a new Section 95 Officer to be appointed.</p> <p><b>Risks</b></p> <p>The council's financial statements are not prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p><b>Recommendation</b></p> <p>The council should ensure that changes within Finance Services are managed to ensure that the council's 2014/15 financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	<p>Work is currently underway to ensure that arrangements are put in place to replace the current Section 95 Officer.</p> <p>Management is acutely aware of the need to put strong arrangements in place to ensure that the finance service continues to improve.</p> <p>With this in mind, the Director of Corporate Services will be reporting to Council in November 2014 on proposals to fill this key post.</p>	Director of Corporate Services	31 December 2014



## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/56	<p><b>Capital Slippage</b></p> <p>There was a 17.6% slippage in the 2013/14 capital programme.</p> <p><b>Risk</b></p> <p>Delays in the capital programme impact on the council's ability to deliver its objectives.</p> <p><b>Recommendation</b></p> <p>Reasons for capital slippage should be investigated and appropriate action taken to minimise the risk of future delays with capital projects. This should include learning lessons from past delays.</p>	<p>Most of the slippage referred to was as a result of delays experienced on a small number of projects, all of which will be complete by the end of 14/15.</p> <p>The reasons behind these delays have been investigated and are now well understood. The lessons learnt will inform the preparation of the Council's Asset Investment Plan for 2015-20, currently underway.</p>	Executive Manager – Capital Programme.	April 2015
3/64	<p><b>Medium Term Financial Plan</b></p> <p>The council's Medium Term Financial Plan requires significant savings to be delivered over the next three years.</p> <p><b>Risk</b></p> <p>Savings are not achieved and there is a larger draw on reserves than planned.</p> <p><b>Recommendation</b></p> <p>Progress against planned savings targets continues to be monitored and corrective action taken to address any significant variances.</p>	<p>The Council is currently well on track to deliver the 2014-15 budget and has developed a draft budget for 2015-16 which will be presented to the Council in December 2014 for approval. If agreed, this will be a sustainable budget which requires an affordable draw on reserves.</p> <p>Work is already underway within services to identify savings proposals for 2016-17 and subsequent years.</p>	Section 95 Officer	Continuous

Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/66	<p><b>Borrowing</b></p> <p>The council will consider funding capital expenditure through external borrowing rather than using its reserves if this secures best value.</p> <p><b>Risk</b></p> <p>Best value is not achieved by funding capital projects through external borrowing.</p> <p><b>Recommendation</b></p> <p>In advance of any external borrowing, thorough options appraisals are carried out to determine whether best value for the council is achieved.</p>	<p>The Council will work with its Treasury advisors to determine whether Best Value is secured by borrowing from external markets, or from borrowing internally from reserves.</p> <p>This will be an ongoing process, but at present the only project that is increasing the Council's Capital Financing Requirement is the new Eric Gray Resource Centre.</p>	Section 95 Officer	Ongoing

## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/74	<p><b>Standing Orders for Tenders and Contracts and Small Contracts Procedures</b></p> <p>Non-compliance with procurement guidance and regulations continues to be a concern for the council.</p> <p><b>Risk</b></p> <p>The council suffers significant financial loss.</p> <p><b>Recommendation</b></p> <p>The council closely monitors the award of tenders and contracts to ensure compliance with guidance and legislation.</p>	<p>Following the introduction of revised Contract Standing Orders in September 2013, the Procurement team have carried out a programme of awareness sessions with all Executive Managers across the Council to explain the processes to be followed and the monetary thresholds that apply. In addition, they will continue to monitor the award of tenders and contracts to ensure compliance with Contract Standing Orders and procurement legislation.</p>	Executive Manager – Capital Programme	April 2015

## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/90	<p><b>Health &amp; Social Care Integration</b></p> <p>There are significant challenges for delivering the Integration Scheme by December 2014.</p> <p><b>Risk</b></p> <p>If there are no agreed governance or financial management arrangements in place by 1 April 2015 for Health and Social Care Integration in Shetland the council may not meet the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014.</p> <p><b>Recommendation</b></p> <p>Progress on the Integration Scheme should be closely monitored and appropriate action taken where necessary to ensure expected outcomes are delivered.</p>	<p>Project governance and management arrangements have been put in place to ensure that all work packages relating to Health and Social Care Integration are completed by 31 March 2015.</p> <p>A Local Partnership Finance Group consisting of representatives from the Council and NHS Board is in place to lead on the development of the financial aspects of the legislative changes.</p>	Director of Corporate Services	31 March 2015

Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/96	<p><b>Benefits Service</b></p> <p>The Benefits Service’s ability to deliver continuous improvement could be adversely affected by</p> <ul style="list-style-type: none"> <li>• not having sufficient levels of experienced staff</li> <li>• not planning effectively for the disruption to normal service levels due to the implementation of significant IT projects.</li> </ul> <p><b>Risk</b></p> <p>The benefits section cannot deliver expected service improvements</p> <p><b>Recommendation</b></p> <p>Arrangements are put in place to ensure benefits services have sufficient resources to implement expected improvement</p>	<p>As part of the Finance Service’s workforce planning and succession planning arrangements a number of staff have been enrolled to study for their IRRV qualification. In addition, 2 new posts will be created in Revenues and Benefits at a higher level to ensure that there are staff in the pipeline who will eventually be well placed to succeed the current Team Leader.</p> <p>Whilst the Revenues and Benefits team is small, it has a level of in-built flexibility that allows staff to be moved to the areas of demand as they occur. These arrangements should be sufficient to meet the requirements placed on the Council with regard to Welfare Reform.</p>	Section 95 Officer	Ongoing

## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
8/107	<p><b>Workforce Management</b></p> <p>The council does not yet have an approved workforce management strategy in place.</p> <p><b>Risk</b></p> <p>The council cannot deliver its agreed objectives if resources are not strategically managed.</p> <p><b>Recommendation</b></p> <p>The council approves a workforce strategy by the end of 2014</p>	<p>The Executive Manager – HR is leading on this piece of work and it will be progressed throughout the remainder of 2014-15.</p> <p>This will result in a Workforce Management Strategy being represented to Council in February 2015.</p>	Executive Manager – HR	31/3/2015
9/109	<p><b>Risk Management</b></p> <p>Risk Management arrangements are not yet fully embedded across the council.</p> <p><b>Risk</b></p> <p>Corporate objectives are not achieved if risks are not effectively managed.</p> <p><b>Recommendation</b></p> <p>The council should continue to develop its risk management arrangements. This should include effective monitoring of identified risks.</p>	<p>An independent review of risk management within the Council is currently ongoing. This will help to inform what further actions the Council will take. A risk management workshop has been arranged with CMT for 9/12/14 and a SMART action plan will be presented to CMT and Audit Committee once the final report on the risk management review has been agreed.</p>	Executive Manager – Audit, Risk and Improvement	31/3/15

## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
10/110	<p><b>Procurement</b></p> <p>The council's 2013 PCA assessment as 35% is significantly lower than the average score across Scottish councils of 56%.</p> <p><b>Risk</b></p> <p>The council's procurement arrangements do not deliver best value.</p> <p><b>Recommendation</b></p> <p>The procurement improvement plan should be properly monitored to ensure the expected progress against agreed improvement actions is achieved.</p>	<p>The Council's PCA assessment for 2014 has resulted in an improved score of 40%. It is understood that the assessment regime will change for future years. The Council is committed to demonstrating year on year improvement in this area, but with greatest priority applied to measures that will generate cash savings.</p> <p>This approach is described in the Council's Procurement Strategy and associated Action Plan, which is reviewed on a regular basis.</p>	Executive Manager – Capital Programme	April 2015

## Appendix IV – Action plan

Action plan point/ para ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
11/119	<p><b>Public Performance Reporting</b></p> <p>Improvements are required in the council's approach to public performance reporting.</p> <p><b>Risk</b></p> <p>Without the required performance information stakeholders cannot challenge the council on its performance to ensure council objectives are delivered.</p> <p><b>Recommendation</b></p> <p>The council continues to develop its public performance reporting arrangements This should include identifying and reporting/publishing appropriate performance information.</p>	<p>Meetings have been held with relevant Council officers to explain what PPR requirements are. PPR Information is to be submitted by 31 December 2014 to Audit, Risk &amp; Improvement and work is underway to develop different means of communication. E.g. Posters in public places and a dedicated webpage by 31 March 2015. A Performance Management strategy will be developed by August 2015.</p>	<p>Executive Manager – Audit, Risk and Improvement</p>	<p>August 2015</p>