



Final report to the Members of the Council and the  
Controller of Audit on the 2016/17 audit

20th September 2017

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# Director introduction

## The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee for the 2017 audit.

As detailed in our plan presented to the Audit Committee in February 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits, sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting including Best Value*

# Director introduction (continued)

## The key messages in this report (continued)

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

### Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - Recognition of grant income;
  - Valuation of property assets; and
  - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 13.
- We have identified one audit adjustment from our procedures to date which has been adjusted for by management. This is detailed in the appendices.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.
- Our audit of Zetland Educational Trust is also complete, with an unmodified audit opinion.

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Insight

- We have utilised Spotlight, **Deloitte's** patented analytics tool, to perform analytics on the journal entries posted in the year as part of our journal entry testing.
- A number of additional insights have been identified throughout the audit procedures performed with reference to property valuations, fishing quota valuations and journal entry testing. These have been noted in the Action Plan as an appendix for management consideration.

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Status of the audit

- The audit is substantially complete subject to the completion of the following principal matter:
  - Audit of the WGA return.

# Director introduction (continued)

## The key messages in this report (continued)

### Best Practice

#### Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 The Local Authority Accounts (Scotland) Regulations 2014 – management commentary. We have confirmed that the management commentary complies with the statutory guidance requiring local authorities to include in the management commentary those matters which companies are required to disclose in a strategic report, with some modification to interpret for local authorities.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
  - information given in the management commentary is consistent with the financial statements;
  - the management commentary has been prepared in accordance with the statutory guidance;
  - information given in the annual governance statement is consistent with the financial statements; and
  - the annual governance statement has been prepared in accordance with proper practice.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have also audited the auditable parts of the remuneration report and confirmed that it has been prepared in accordance with the Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014.
- We note that the Council makes some use of graphs, however, there is scope for this to be expanded in line with best practice to help the users understanding of the accounts.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### Financial Sustainability

Net expenditure on services of £112,901k was incurred in 2016/17, down 6% from £120,695k in 2015/16 largely as a result of an increase of £10,449k in Harbour Account net income. Overall, an underspend was reported against budget, with a net draw down on reserves of £5.751 million compared to a budgeted draw down of £16.329 million. This was achieved through underspends across revenue and capital.

Financial balance has been forecasted for the short to medium term future and is expected. However an increasing reliance has been placed on General Fund and HRA reserves in recent years which is unsustainable going forward.

Reducing General Fund drawdowns has been identified as the primary focus for the Council in the short to medium term. Annual drawdowns have been identified by Council management as unsustainable in the medium to long term, and as of 2018/19 there is a forecasted budget gap of £6,840k in the year, which is forecasted to increase to £19,461k by 2021/22. Amongst the other significant challenges facing the Council is the decreasing Scottish Government grant funding and increasing inflationary pressures on costs.

The Council intends to address its overreliance on reserves by placing more focus on increasing Harbour Account and investment income, and by continuing to generate efficiencies in service delivery costs. Increasing council tax rates (for the first time since 2007) by 3% is another mechanism utilised by the Council to reduce reliance on reserves going forward.

Given the size of the projected budget gaps facing the Council, and the past reliance and planned short-term future reliance on reserves (£12,024k drawdown forecasted in 2017/18), the Council will continue to rely on reserves in the medium term. However, over the longer term the Council plans to maximise other income streams and identify cost savings to fill the gap, with less reliance on reserves. Whilst the pace of **change may fall short of the Council's targets, it is our view that the Council is moving in the right** direction by placing a primary focus on reducing reliance on reserves, maximising other income streams and generating service costs savings.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### Financial Management

Budgets have been relatively accurate in recent years, aided by contingencies in place within the short term budgets to protect against unplanned overspends.

The budgeting process in place is detailed and robust. Service line budgets are approved at Directorate and Council level, and the Council prepares detailed short, medium and long term financial plans addressing income and cost challenges faced. Alternative solutions are evaluated to overcome funding gaps identified to be addressed at a later point. The incremental budgeting approach helps give efficiency targets credibility and aids a targeted **priority-based approach in line with the Council's strategic priorities.**

Internal Audit reports produced throughout the year did not raise any significant points from a management or audit perspective, and on the basis of our substantive procedures performed and assessment of the control environment we are satisfied with the financial management processes in place.

We have found that whilst the Council has appropriate arrangements in place for the prevention and detection of fraud and corruption, the level of active participation in the National Fraud Initiative could improve through more appropriate prioritisation and resource allocation going forward. We understand that this is currently being addressed.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### Governance and transparency

Shetland Islands Council has governance arrangements that are appropriate and operating effectively. The Council is transparent in its decision making with reports discussed at committee meetings being made available on-line along with the minutes.

Council Committees meet regularly to review the performance (financial and non-financial) of Shetland Islands Council. From review of committee meeting minutes, we are satisfied there is scrutiny and challenge by both elected members and management of Shetland Islands Council. From our attendance at Audit Committee meetings we have observed a good level of challenge and scrutiny by members and we are satisfied the Audit Committee is effective.

The Audit Committee provides assurance to the Council on corporate governance and financial probity. From review of committee meeting minutes, we are satisfied the Audit Committee meets regularly to provide appropriate assurance to the Council.

Internal Audit provides independent assurance to elected members and management that effective governance and internal control arrangements are in place across the Council. The internal audit plan for the year is agreed by the Audit Committee, with the aim of providing assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework.

From review of internal audit reports in the year, we are satisfied internal audit provides effective, independent assurance.

#### Value for money

We have focussed primarily **on assessing the Council's strategic and long-term** priorities as well as its public performance reporting. We have found that whilst the processes in place for long-term planning are effective, the Council should set out clear medium term strategic priorities that have buy-in from local community partners.

With regards to performance reporting, the Council has improved substantially on its weakest areas in **recent years in particular Childrens' services and Environmental indicators, and we will continue to assess the Council's approach over the next 5 years. Additionally, we have considered the adequacy of the Council's arrangements for collecting, recording and publishing accurate and complete information in relation to the Statutory Performance Indicators and noted no significant issues.**

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### Strategic Audit Priorities

As part of our best value work, we have considered the five Strategic Audit Priorities agreed by the Accounts Commission and have undertaken a baseline analysis of the Council's arrangements in relation to these priorities. There is an element of cross-over between the Strategic Audit Priorities and the wider areas of financial sustainability and value for money. We have primarily focused on gaining an understanding of the Council's arrangements for demonstrating best value in financial and service planning, financial governance (as detailed in the wider scope work), resource management and its plans for transformation moving forward.

We reviewed the Council Plan 2016–2020 and the Shetland Islands Community Planning Partnership (CPP) Local Outcome Improvement Plan (LOIP), which sets out how the Council and its partners will work together to provide better services with the aim of making sure that Shetland is the best place to live and work for the people and communities that live there. The number of different sets of outcomes, priorities and aims set out in the **Council's** plans create an unclear picture of where exactly the Council intends to focus in the medium term. We have suggested that the Council should consider adopting a single overarching vision shared by both the Council and community partners which is supported by a single high level set of priorities/aims in order to simplify this landscape, with KPIs that clearly link to these key priorities and measure improvement in outcomes.

The Council have identified embracing new technology as a means of revolutionising how public services support everyone who lives and works in the Shetland community. The strategy for this shift towards more digitally focussed service delivery is outlined in the **Council's** Business Transformation Programme (BTP). Recognising that the BTP alone cannot deliver whole scale change, the Council have identified a programme of transformation change projects grouped under key workstreams. The Council is at the early stage of considering the BTP and the transformational projects required to allow it to achieve the recurring revenue reductions to maintain the sustainability of its services. This will be a key area that we will monitor over the course of the audit appointment, including how the Council ensure that projects deliver on time, on budget and most importantly, deliver the expected benefits for the citizens of Shetland.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### Strategic Audit Priorities

We reviewed the **Council's** arrangements for ensuring that Members and officers have the right knowledge, skills and time to lead and manage delivery of the Council priorities. We found that Shetland place a great deal of importance of building up strong relationships with Members and this was illustrated in the comprehensive induction programme. We will review how the needs of Members and officers are taken into consideration as the Council implements its BTP up to 2020. We would also expect to see the Members playing a very active role in the transformation and the Council will need to ensure it has the transformational infrastructure in place, including Programme Management Office (PMO), benefits realisation tools and templates and an effective change management strategy to deliver this transformational change.

We reviewed how the Council engages with its citizens and we are satisfied that it places strong emphasis on encouraging community participation in Council decision making and has an aspiration that 1% of the **Council's** budget should be decided through Participatory Budgeting initiatives in the longer term . We will monitor how the Council will ensure that this current engagement approach plays a more significant part in making funding decisions moving forward and we would wish to see clear evidence of engagement directly impacting on Council strategy through the upcoming transformation of Council services through the implementation of the BTP and Service Redesign Programme.

Pat Kenny  
Audit Director

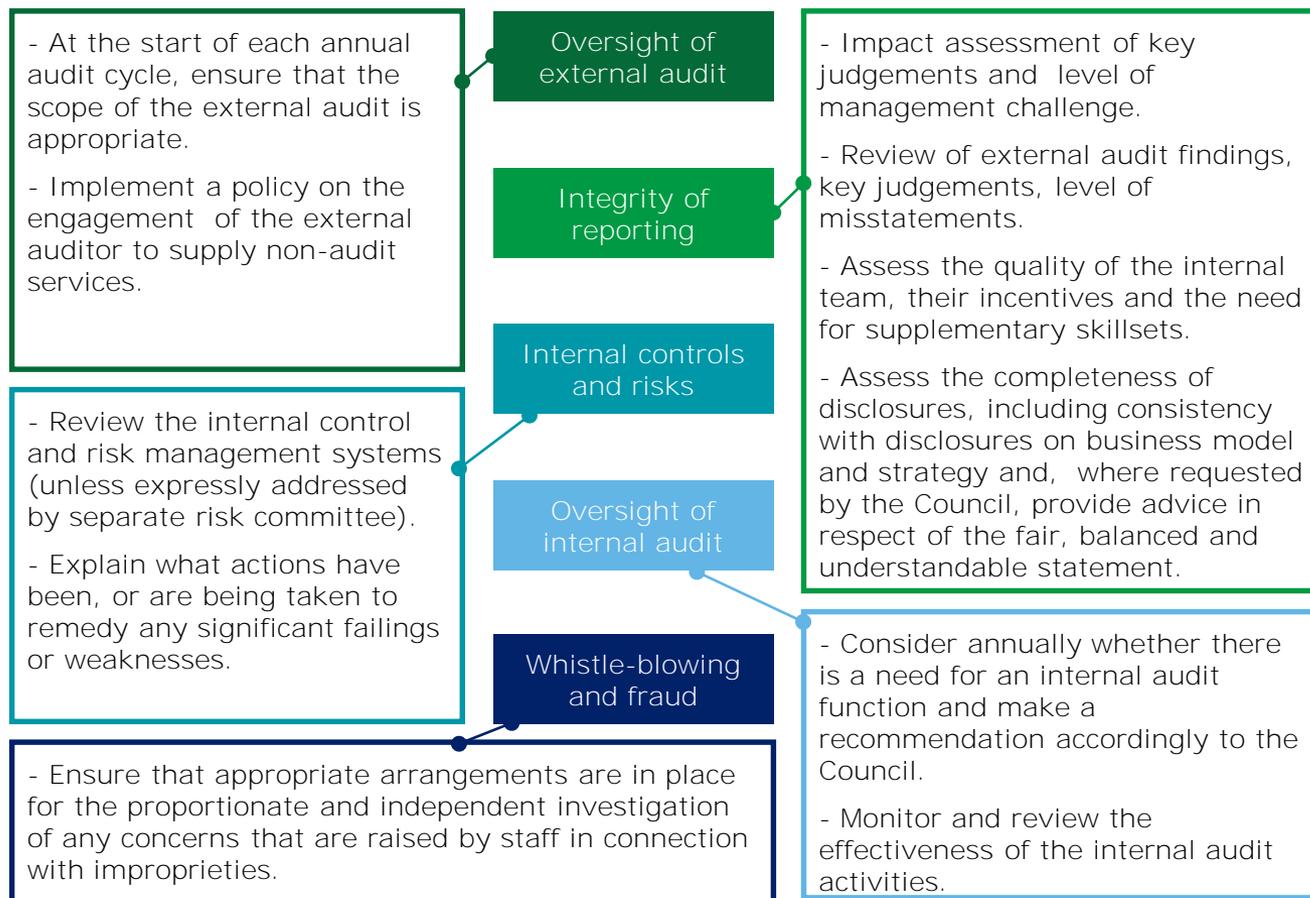
# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

The primary purpose of the **Auditor's interaction with the Audit Committee**:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to **the Audit Committee's** responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions, being:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

We have also considered the Strategic Audit Priorities set by Audit Scotland as well as covering the Best Value audit work.

### Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 13 provides a summary of our risk assessment of your significant risks.

### Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

### Key developments in your business

As noted in our planning report, the Council continued to face significant financial challenges due to an increase in costs whilst facing increased demand for services, and at the same time facing decreasing Scottish Government funding.

The integration of health and social care continued to be a challenge.

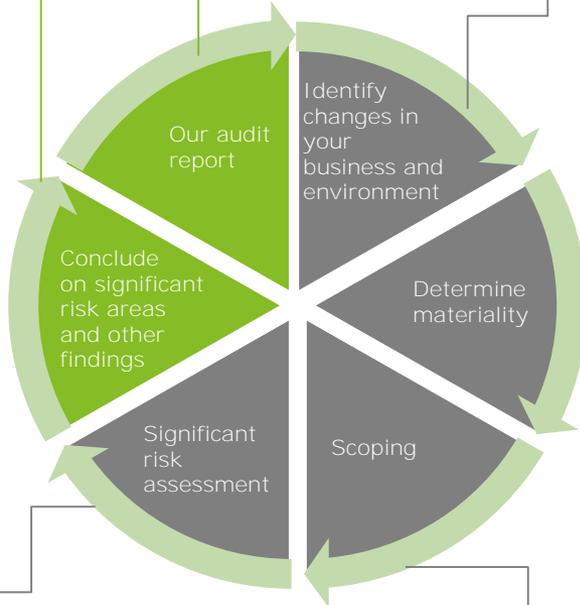
### Materiality

The materiality of £3,028k and performance materiality of £2,271k has been based on the benchmark of gross expenditure.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £150k. These figures have changed only marginally from those identified in the planning paper as a result of final numbers.

### Scope of the audit

We have audited the financial statements for the year ended 31 March 2017 of Shetland Islands Council.



## Timeline 2017



## Quality and Independence

We confirm we are independent of Shetland Islands Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

# Significant risks Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with <b>Deloitte's</b> expectations	Comments	Slide no.
Recognition of grant income			D+I	Satisfactory		Satisfactory	12
Valuation of property assets			D+I	Satisfactory		Satisfactory	13
Management override of controls			D+I	Satisfactory		Satisfactory	15



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

# Significant risks (continued)

## Recognition of grant income

### Risk identified

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

The main components of income for the Council, as summarised in the table below, are the revenue support grant and non-domestic rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is pinpointed to the recognition of grant income (excluding the revenue support grant). Council tax, housing rent and trading services harbour income are set through the annual budget process, with no management judgement therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error.



### Key judgements and our challenge of them

There is significant management judgement around determining if there are any conditions attached to a grant and if so whether the conditions have been met. The complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.



### Deloitte response

We have performed the following:

- assessed **management's** controls around recognition of grant income; and
- tested a sample of capital grants and contributions and grant income credited to Service Income and confirmed these have been recognised in accordance with any conditions applicable.

Type of income	2016/17 (£m)	Significant risk
Taxation and Non-Specific Grant Income		
Council Tax income	8.5	
Non domestic rates	17.8	
Revenue support grant	64.5	
Capital grants and contributions	4.8	✓
Service Income		
Grant income (including Housing Benefit)	9.5	✓
Housing rent	6.8	
Trading services (Harbours)	28.9	
IJB Commission income	20.4	
Other Service Income	30.4	

### Deloitte view

We have concluded that grant income has been recognised correctly in accordance with the requirements of the Local Authority Code of Audit Practice.

# Significant risks (continued)

## Valuation of property assets

### Risk identified

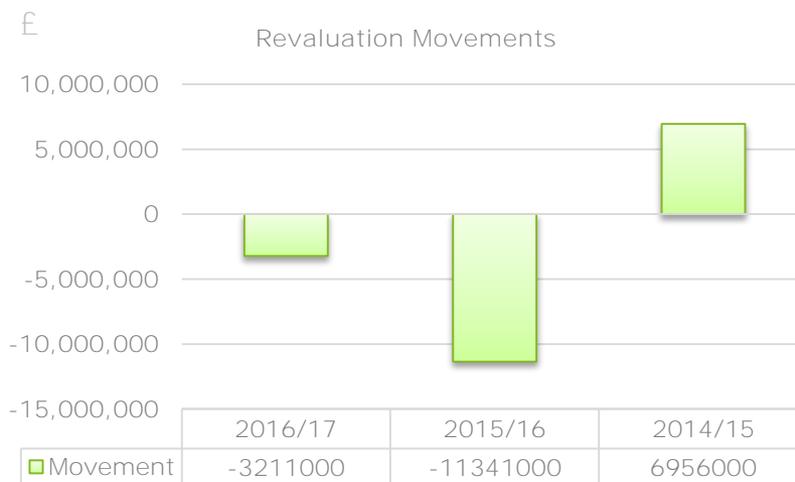
The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation, with the exception of Council Dwellings which are required to be measured at existing use value – social housing. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.



### Key judgements and our challenge of them

The Council held £201,622k of property assets at 31 March 2017. The financial year to 31 March 2017 will represent year 5 of a 5 year rolling programme in which 20% of the portfolio will be revalued along with 100% of Council dwellings.

The most significant movement (£4,377k) arose in the revaluation of the old Anderson High School, as would be expected given the replacement school being built. Deloitte understand a consultation on potential uses for the old Anderson High School is to be undertaken.



# Significant risks (continued)

## Valuation of property assets (continued)

### Deloitte response



- We reviewed the revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified independent individuals;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- We reviewed the information that was provided to the valuer and tested the inputs to ensure that these were complete and included all Council property assets due for revaluation;
- We considered material changes in assets not subject to full revaluation during the year;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the **Council's internal** valuation specialists, including sample testing of inputs to the valuation.

### Deloitte view

We have concluded that the NBV of the land and buildings included within Property Plant and Equipment is not materially misstated. The **Council's valuation** assumptions are generally in line with other Councils and fall within the expected range as assessed by Deloitte Real Estate (DRE).

We understand that the Council is currently in the process of revising its approach to its revaluation procedures. A number of insights have been raised by DRE within their report as areas where the revaluation process could be more efficient and effective. A meeting has been held with both the finance and estates team to discuss the findings in detail and have agreed to take forward the recommendations.

# Significant risks (continued)

## Management override of controls

### Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Management judgements, with regard to manual journal postings, accounting estimates and uncertainties, do not show management bias or undue favourable subjectivity.
- Senior **management's remuneration is not tied to particular financial results.**

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered the 1,216,653 journals posted in the year. No issues noted from our testing.

We have recommended that the full journal entry listing should be reconciled to the trial balance used to generate the financial statements to ensure completeness.

### Accounting estimates

In addition to our work on key accounting estimates discussed above, our **retrospective review of management's significant estimates reflected in last year's financial statements** completed with no issues noted.

We have recommended that management obtain further information to support the valuation provided in relation to fishing quotas to ensure that this is based on robust judgements.

### Significant transactions

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

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Council.

# Other matters

## Defined benefits pension scheme

### Background

The Council participates in two defined benefits schemes:

- Scottish **Teachers'** Pension Scheme, administered by the Scottish Government; and
- The Local Government Pension Scheme.

The net pension liability has increased from £143,129k in 2015/16 to £229,675k in 2016/17 largely as a result of an decrease in the discount rates applied, compounded by a slight increase in some inflation adjustments.



### Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- We reviewed and challenged the assumptions made by Hymans Robertson;
- We assessed the reasonableness of the **Council's** share of the total assets of the scheme with the draft Pension Fund financial statements;
- We reviewed the disclosures within the accounts against the Code;
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; and
- We liaised with our in-house actuary regarding their assessment of the key assumptions.

	Council	Benchmark	Comments
Discount rate - LGPS	2.60%	2.55%	Reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40%	3.20%	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.4%	2.2%	Reasonable, slightly prudent
Salary increase (over CPI inflation)	1.00%	Council specific	Optimistic
Pension increase in payment (% p.a.)	2.4%	2.2%	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.40	2.20	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.80	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	24.90	23.00	Reasonable

### Deloitte view

We have reviewed the assumptions and, overall, the set of assumptions is reasonable albeit prudent when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

# Other matters (continued)

## Zetland Educational Trust

### Risk identified

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

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

### Deloitte response



We have assessed that the statement of receipts and payments and the statement of balances have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006 (the 2006 regulations). No issues have been noted.

	2016/17 £'000	2015/16 £'000
Statement of Receipts and Payment		
Total receipts	4	5
Total payments	2	2
Surplus for year	2	3
Statement of Balances		
Cash and bank	7	11
Market valuation of investments	660	655
Trust balance	667	666

### Deloitte view

No issues noted from our testing of the charitable trust accounts in the year, which were found to be correctly accounted for in accordance with the Regulations.

# Other significant findings

## Internal control and risk management

ISA 315.12 (UK and Ireland) requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

While the property valuations are not materially misstated in 2016/17, a number of procedural points need to be addressed to ensure that future year valuations are prepared on a robust basis.

Effectiveness of the process undertaken by the Council to assess and monitor the control environment and support their statement in the annual report that they have undertaken a robust assessment of the principal risks.

Our assessment of the internal audit function taking into account its scope and remit, independence, reporting lines and resourcing.

Requires significant improvement

Acceptable but could be improved

No issues noted

Consideration of **'tone at the top'** and importance given to internal control/ risk management by the Council, particularly in light of the new UK Corporate Governance Code requirement to monitor all material controls.

### Deloitte view

In our view, the quality of papers prepared by management in support of key judgements are detailed enough and justify the choices made by management.

# Other significant findings (continued)

## Insights delivered (continued)

We welcome this opportunity to set out for the Audit Committee our observations from our substantive audit procedures. Below are other insights we have identified from our audit.

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Insight	Deloitte response
<p>From our property specialists review of the valuations performed in the year, a number of recommendations have been made in relation to the valuation process. A meeting has been held with both the finance and estates team of the Council to discuss the findings in detail and they have agreed to take forward the recommendations.</p>	<p>Following the meeting held in July, we have provided a comprehensive list of the points raised for management to action as a result of our audit work on the property valuations. These have not been repeated in full below however the key points noted are:</p> <ul style="list-style-type: none"><li>• Duplicate of effort in valuations should be avoided and valuations should only be carried out after improvements/additions have been made, not both before and after.</li><li>• The summary valuation is very basic. This should be more detailed and give further disclosure on the valuation considerations made.</li><li>• Valuation of specialised assets should reflect Modern Equivalent Asset (MEA) considerations.</li><li>• <b>Valuer's consideration of obsolescence allowances should include functional and economic obsolescence, as well as age and condition of the assets.</b></li></ul>

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# Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Draft Annual Report	Deloitte response
Management Commentary	<p>The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made some use of graphs and diagrams. The council also focusses on the strategic planning context.</p>	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions were noted.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We note that the Council makes some use of graphs, however, there is scope for this to be expanded in line with best practice to help the users understanding of the accounts.</p>
Remuneration Report	<p>The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council.</p>	<p>We have audited the disclosures of remuneration and pension benefit, pay bands, and exit packages and confirmed that they have been properly prepared in accordance with the regulations. No exceptions were noted.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that the Shetland Islands Council governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions were noted.</p>

# Wider scope requirements

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Areas considered

- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

### Deloitte response

We have monitored the **Council's** actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (5-10 years) financial strategy and if investment is effective.

As set out on pages 35 to 48, as part of our best value work and consideration of the Strategic Audit Priorities, we have also assess the **Council's** performance in undertaking transformational change, reliance on reserves and achievement of savings targets.

# Wider scope requirements (continued)

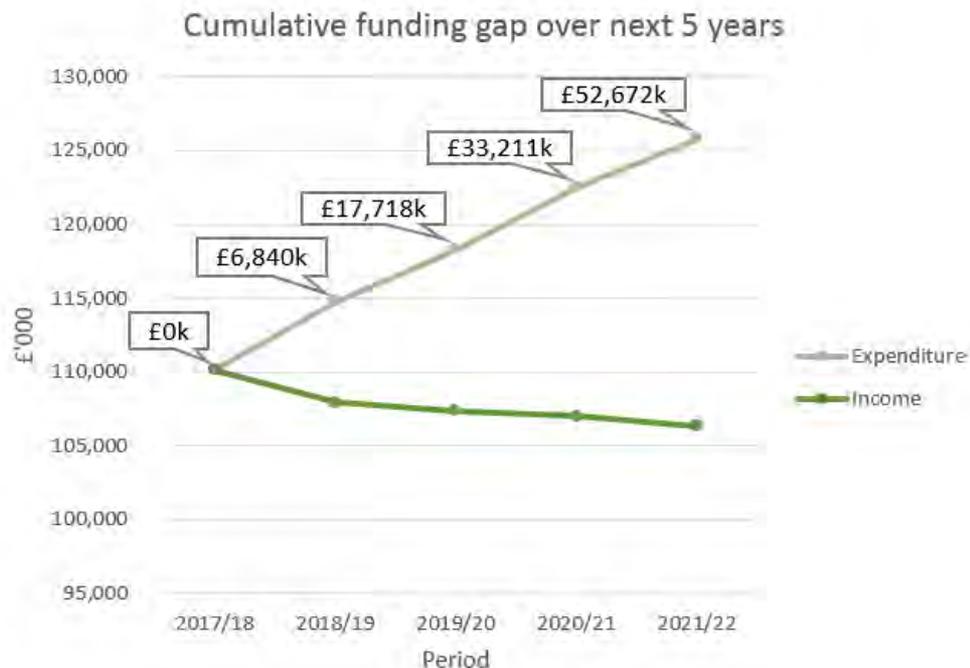
## Financial sustainability (continued)

### Revenue budget

The approved 2017/18 budget shows net expenditure in the year of £110,136k which incorporates £3,187k in savings as part of the concerted effort to reduce reliance on General Fund drawdowns. A number of risks have been identified by the Council when compiling the budget, including, in particular, the threat to the current levels of Scottish Government funding and inflationary pressures on cost (salary costs in particular).

As part of developing this budget, the Council has established a Medium Term Financial Plan (MTFP) reflecting the **Council's** Strategic Priorities. The MTFP represents a more collaborative approach to financial planning across Services and a more structured view of the revenue and capital budgets and Council reserves, allowing the Council to plan the full financial impact of decisions taken now on future **years'** budgets. Draft annual budgets have been prepared up until 2021/22 as part of the MTFP showing that in 5 **years'** time the cumulative funding gap could reach £52,672k if the key risks to financial sustainability are not addressed.

A Long Term Financial Plan (LTFP) has also been established covering the period 2015-2050. This considers pressures on funding and costs at a much higher level, with key focus on the potential to maximise Council Tax Income and the increasing inflationary pressures on costs. Despite being relatively high level, it is much more detailed and considered than similar LTFPs produced at other Councils.



# Wider scope requirements (continued)

## Financial sustainability (continued)

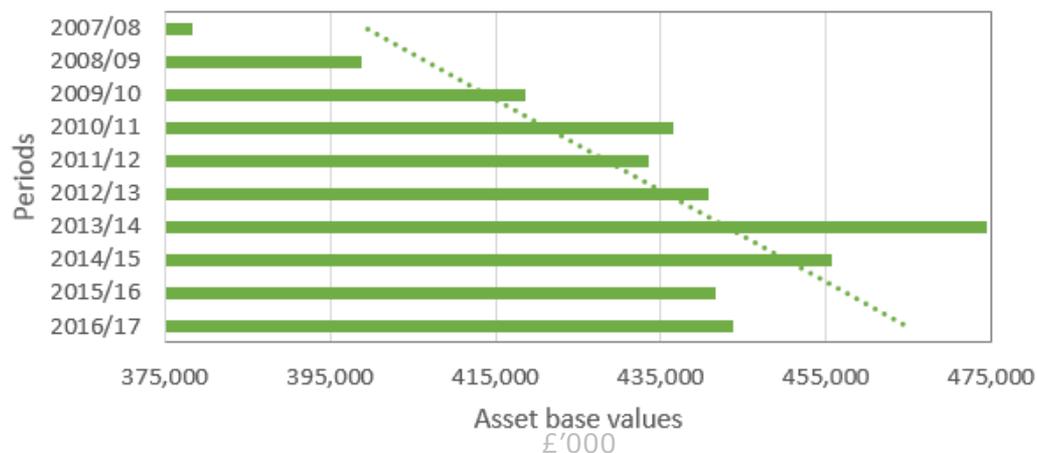
### Capital budget

A five year investment plan initiated at the start of 2016 showed an investment allocation of £73,768k to be spent over the five year period. This investment plan is funded largely by the Scottish Government capital grant with some partially funded by borrowings.

There has been a recognition within the MTFP that whilst the Council has historically viewed investment funded by reserves as a **"free resource"**, greater focus is now being placed on the opportunity cost of this investment. Given the forecasted budget gaps and the need to address overreliance on reserves, the long term investment return sacrificed by investing reserves into capital expenditure is considered before any investments are made.

The LTFP has highlighted the burden carried by the Council as a result of its inflated asset base. The cost value of fixed assets held at the end of 2016/17 is £433,835k – this asset portfolio has expanded without due consideration given as to how it will be maintained in the medium to long term. The Council has a long term aim of shedding excess asset holdings. By reducing its asset base it will reduce maintenance/service costs and therefore reduce the pressure put on capital grant and reserve funding. This focus on reducing excessive capital spend and shrinking the asset base is part of the concerted effort to relieve the pressure on reserve funding.

Asset base values over last 10 years (unadjusted)



# Wider scope requirements (continued)

## Financial sustainability (continued)

### Reserves

The **Council's** Usable Reserves balance has increased by £2.196 million in the year to £244.425 million at 31 March 2017. This has been achieved mainly as a result of the underspend against budget of £10.6 million (as discussed on page 27).

Further consideration of the **Council's** reserves is discussed on page 39.

### Deloitte view

As discussed further on pages 37 to 40, The Council has a clear process in place for long term financial and medium term planning that is undertaken on annual basis and ensure that the financial plan links to the **Council's** vision and priorities.

Given the **Council's** starting level of reserves, the planned use of reserves to meet the funding gap over the next 2 financial years is sustainable, however, going forward, the Council should ensure that such an approach is taken only in exceptional circumstances to avoid reducing revenue generation from long-term investments.

The Council has achieved significant savings over the last 6 years however due to increasing demand for services and the continuing restraint in relation to Council funding settlements, it will have to consider how it can transform service delivery through its Business Transformation Plan (2016-2020) in order to continue to meet citizen needs with reducing budgets.

# Wider scope requirements (continued)

## Financial management

### Audit dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Areas considered



- Systems of internal control
- Budgetary control system
- Financial capacity and skills
- Arrangements for the prevention and detection of fraud

### Deloitte response



We have reviewed the budget and monitoring reporting to the Council during the year to assess whether financial management and budget setting is effective.

Our fraud responsibilities and representations are detailed on pages 61.

	Budget	Actual	Variance
	£'000	£'000	£'000
<b>General Fund</b>			
Expenditure	113,482	108,070	5,412
Core Funding	(91,200)	(91,237)	37
Funding from Reserves (A)	(22,282)	(16,833)	(5,449)
<b>Harbour Account</b>			
Expenditure	18,331	16,748	1,583
Core Funding	(29,356)	(28,866)	(490)
Funding from Reserves (A)	11,025	12,118	(1,093)
<b>Housing Revenue Account</b>			
Expenditure	6,042	4,704	1,338
Total Income	(6,946)	(6,771)	(175)
Contribution to Housing Repairs and Renewals Fund (A)	904	2,067	(1,163)
<b>Total Revenue Draw Down (A)</b>	<b>(10,353)</b>	<b>(2,648)</b>	<b>(7,705)</b>

The final outturn for 2016/17 was a £2.648m draw down on reserves, compared to a budgeted draw down of £10.353m. This, together with the draw down for capital expenditure resulted in overall draw down on reserves of £5.751m compared to a budget of £16.329m. This has been achieved through a combination of reduced service spending, particularly in relation to overall staffing costs, and increased income, in particular from economic development investments and recharges to other Council accounts. Both the Harbour Account and the Housing Revenue Accounts also exceeded the budgeted contributions through a combination of reduced spending, particularly in relation to the funding of capital expenditure from revenue and from increased income, an example being additional income received through the Shetland Gas Plant agreement.

# Wider scope requirements (continued)

## Financial management (continued)

### Capital expenditure

A final capital expenditure outturn of £20.9 million was reported against a budget of £31.7 million. The underspend has arisen due to underspends on the halls of residence and Clickimin works due to payments not being drawn down as fast as originally anticipated (£5.1m) and on the Replacement Eric Gray Project due to work commencing on site later than planned (£2m). There were also underspends and tendering delays on Ports and Harbours Operations projects (£2.1m)

The key focus has been on maintaining the current asset base without expanding – this is in line with the long term strategic priority to prevent the asset base from bloating further, and to eventually reduce the asset base and thereby reduce associated service costs. The only significant addition in the year is the investment in the ongoing construction of Anderson High School.

#### Deloitte view

We have noted that whilst medium to long term financial targets set by the Council appear ambitious, short term budgets have been relatively accurate. Variances incurred are commonly the result of approved reallocations between capital and revenue spend, and short term funding gaps have been identified and addressed. We are satisfied the Council has strong financial monitoring arrangements which is robust enough to sufficiently capture any changes in the achievement of financial targets.

We have reviewed internal audit reports issued in the year. From this and from our testing throughout the audit we are satisfied that the Council has adequate systems of internal controls in place.

We have found that whilst the Council has appropriate arrangements in place for the prevention and detection of fraud and corruption, the level of active participation in the National Fraud Initiative could improve through more appropriate prioritisation and resource allocation going forward. We understand that this is currently being addressed.

# Wider scope requirements (continued)

## Governance and transparency

### Audit dimension

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

### Areas considered



- Governance arrangements
- Scrutiny, challenge and transparency on decision making and financial and performance reports
- Quality and timeliness of financial and performance reporting

### Deloitte response



We have reviewed the financial and performance reporting to the Council during the year and noted no issues with the quality and timeliness of these reports.

We have reviewed the minutes of all Committee meetings to assess the effectiveness of the governance arrangements and the level of scrutiny and challenge. Our attending at the Audit Committees has also informed our work in this area.

We have reviewed the governance of the Medium Term Financial Plan and the benefit realisation process.

We have review the current arrangements and plans in relation to the IJB as it develops, sharing best practice.

# Wider scope requirements (continued)

## Governance and transparency (continued)

### Internal Audit

The **Council's** Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audits presented to the Audit Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

The Public Sector Internal Audit Standards require that the Senior Manager (Internal Audit, Risk and Fraud) develops a Quality Assurance and Improvement Programme (QAIP). The purpose of this QAIP is to enable evaluation of the Internal Audit **team's** conformance with the Standards.

The Scottish Local Authorities Chief Internal **Auditors'** Group (SLACIAG) has developed an External Quality Assessment Framework to satisfy this requirement for five yearly external assessment.

We have found that during the year Internal Audit raised numerous non-significant findings across various service lines on areas such as expenditure, data security and reporting, as well as suggesting remedies. Deloitte will continue to assess whether issues raised in these reports are acted upon by the service lines involved.

### Following the public pound

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

We have considered the appropriateness of the **Council's** arrangements to meet their obligations to comply with the Code as part of our '**Value for Money**' wider scope considerations.

#### Deloitte view

We confirm that we have reviewed the **Council's** governance and transparency arrangements and have identified no issues in this regard.

- From our review of the internal audit plan for 2016/17 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and action being taken.
- We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year.
- We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

# Wider scope requirements (continued)

## Value for money

### Audit dimension

Value for money is concerned with using resources effectively and continually improving services.

### Areas considered



- Value for money in the use of resources
- Link between money spent and outputs and the outcomes delivered
- Improvement of outcomes
- Focus on and pace of improvement

### Deloitte response



**We have gained an understanding of the Council's** self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

We have also considered the arrangements the Council has in place to monitor how it is achieving its targets and addressing areas of poor performance.

#### Performance management

The Council uses performance indicators to measure how they are doing. These are linked into groups indicators and local indicators (outlined in service delivery plans, statutory indicators and LOIP indicators).

We have considered this further as part of our work on the Strategic Audit Priorities at pages 47.

#### Deloitte view

There is a framework in place to ensure that Council performance is monitored and reported.

Performance information is readily available to Shetland citizens and the use of infographics allows this information to be presented in a way that is visually interesting.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

# Wider scope requirements (continued)

## Value for money (continued)

### Statutory performance indicators

The Local Government Act 1992 lays a duty upon each council to ensure that it has in place such arrangements for collecting, recording and publishing performance information that will allow it to comply with a Direction from the Commission.

The appointed **auditor's** statutory duty in relation to the performance information is set out in the Local Government (Scotland) Act 1973. The **auditor's** duty is to be satisfied that the council "*has made adequate arrangements for collecting and recording information, and for publishing it as required for the performance of their **duties***".

At its meeting in June 2015 the Commission agreed that its 2015 SPI direction needed to reflect the **Commission's** on-going commitment to sector-led benchmarking and improvement and its approach to the next iteration of the local government Best Value audit approach, in particular the tone of continuous improvement and outcomes.

On that basis, the Commission agreed to endorse a strategy incorporating the following principles:

- a longer-term Statutory Performance Indicator Direction;
- a recognition of the increasing maturity of, and the **Commission's** support for the further development of the Local Government Benchmarking Framework; and
- incorporating the assessment of **council's** approaches to public performance (PPR) as an integral element of the new approach to auditing Best Value, rather than undertaking separate annual assessments of this aspect of **Council's** performance.

The 2015 Direction was approved in December 2015 covering the financial years ending 31 March 2017-2019.

#### Deloitte view

We have considered the adequacy of the **Council's** arrangement for collecting, recording and publishing accurate and complete information and noted no issues.

# Wider scope requirements (continued)

## Health and social care partnership

2015/16 saw the first year of Health and Social Care Integration between Shetland Islands Council and NHS Shetland (NHSS). As part of our separate audit work of the IJB, we have reviewed the current arrangements and plans in place to develop the Health and Social Care Partnership with NHS Shetland. Our key findings are summarised below:

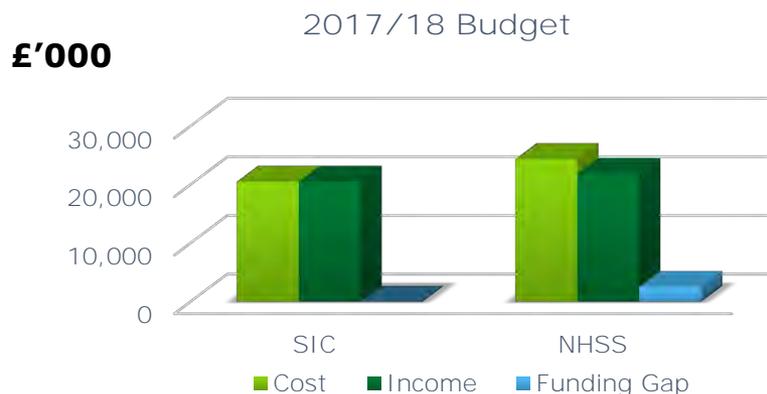
### Financial sustainability

Total outturn net expenditure for 2016/17 was £44,389k, which was £939k over the approved budget, largely in relation to services commissioned from the NHS. NHS Shetland has agreed to fund the short term overspend on a non-recurring basis.

The biggest short-term risk currently facing the IJB is a projected overspend in 2017/18 of £2,529k. A report has recently been presented to the Board (**'Bridging the Funding Gap 2017/18'**) to highlight the funding gap. This noted that SIC offer of funding matches their responsibility for the current service model and that NHSS are responsible for finding efficiencies in their services to close the gap. NHSS have committed to reducing this funding gap by £1,291k through redesigning services, leaving £1,238k of short-term spending currently unfunded.

The IJB has estimated that £5,368k of efficiencies are required in the next 3 years for the IJB to be sustainable.

It is critical that the funding gap is addressed on a Board wide perspective with the IJB working closely with both NHSS and SIC to focus on implementing recurring saving schemes to ensure long term financial sustainability. Shetland IJB faces some unique challenges being a small island Board therefore finds it is difficult to make savings. The Board should complete an exercise to fully evaluate demand drivers and the impact on costs going forward.



### Financial management

From our review of internal audit reports issued in the year, both from the IJB itself and from the two partner bodies and from our testing throughout the audit, we note that the IJB has adequate systems of internal controls in place.

While the IJB reported an overall overspend for 2016/17, this was regularly reported to the board throughout the year in the management accounts that are produced quarterly. This supports the view that management can effectively forecast and has sound financial management procedures in place.

# Wider scope requirements (continued)

## Health and social care partnership (continued)

### Governance and transparency

The IJB has governance arrangements that are appropriate and operating effectively. It is transparent in its decision making with reports discussed at Board meetings being made available on-line along with the minutes of the meetings. The Board meets once every quarter to review the performance (both financial and non-financial) of the IJB. From review of the board meeting minutes, we note there is scrutiny and challenge by both executive and non-executive members of the IJB.

### Value for money

The IJB self-evaluates through Performance Reports, which are prepared annually and are reviewed by the Audit Committee. The IJB also self reviews every quarter as part of the management accounts.

The 2016/17 Performance Report shows a number of projects have no cause for concern and are on track to be completed in time with targets even being exceeded. There are a few cases that have cause for concern and the IJB is making good progress against the national indicators along with the indicators it has set for itself.

### Deloitte view

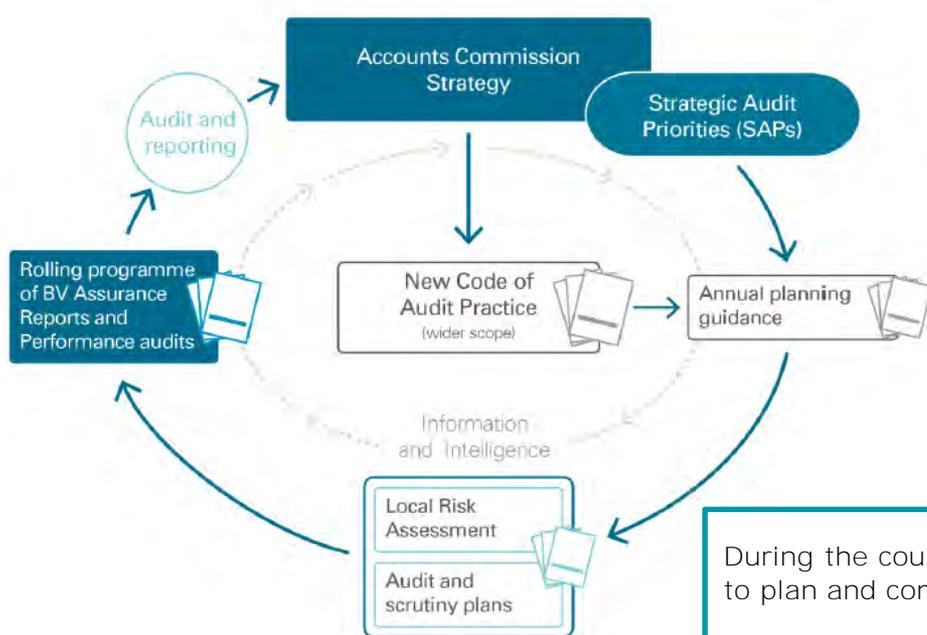
Recognising the relatively early stage of the Board, it is positive to note the work done to date in developing the governance and performance arrangements. However, the long term financial sustainability of the Board is still a significant risk, particularly given the current projected position for 2017/18. It is therefore critical that the Board work closely with both the Council and NHS Shetland to agree mitigating actions to ensure that budgets are delivered in line with the resources available.

# Wider scope requirements (continued)

## Strategic audit priorities

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Shetland Islands Council is planned for later in the five year programme.

This new approach fulfils the **Commission's** desire that it is proportionate, risk-based and outcome-focused, providing the Commission and the public with more regular assurance about the performance of Councils. Audit Scotland are bringing together audit work on Best Value, the annual financial audit and the multi-agency shared risk assessment process, and this will continue to support its work with its strategic scrutiny partners. The audit planning framework is set out below.



The objectives of the new approach include:

- greater emphasis on driving continuous improvement in Councils;
- greater emphasis on the performance, outcomes and impact made by a Council;
- maintaining a proportionate and risk based approach;
- Performance Audit Best Value (PABV) and local auditors working together, and liaising with other scrutiny body representatives on an ongoing basis; and
- emphasising that it is first and foremost a **Council's** responsibility to demonstrate that it is meeting its statutory duties, and that its own self evaluation can accurately show its level of performance and that the pace, depth and continuity of its improvement is appropriate.

During the course of the year, we have worked work closely with PABV staff to plan and complete this work.

In addition, to inform the Controller of **Audit's** Annual Assurance and Risk Report to the Accounts Commission, we will submit a data return covering our audit work by 2 October 2017.

# Wider scope requirements (continued)

## Strategic audit priorities (continued)

As noted on the previous page, the Accounts Commission has reviewed its strategic planning arrangements and has agreed five Strategic Audit Priorities that we have to be built into audit expectations. These are set out below.

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### Council priorities and long term planning

The clarity of Council priorities and quality of long-term planning to achieve these.

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### Service delivery

How effectively Councils are evaluating and implementing options for significant changes in delivering services.

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### Resource

How effectively Councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.

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### Citizen involvement

How effectively Councils are involving citizens in decisions about services.

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### Quality of public performance reporting

The quality of Council public performance reporting to help citizens gauge improvement.

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Areas considered



The Best Value audit work carried out this year focused on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The findings of this work are reported as part of the above.

During the 2016/17 audit, we have worked with our colleagues in PABV to undertake a baseline assessment of the **Council's** position across these Strategic Audit Priorities. We will be able to use this baseline to monitor performance and improvement against these priorities across the next five years.

This basis for this assessment will include interviews with key Members, senior officers and other personnel across the Council, observance of committee meetings and review of documents such as Council Corporate Plan, Medium Term Financial Plan, Council communications, consultations and performance data.

# Wider scope requirements (continued)

## Council priorities and long term planning

Does the Council have clear priorities that set the strategic direction?

Shetland has achieved strong economic growth in recent years and has a high level of performance relative to many national comparisons and indicators. Despite this, the area faces a number of challenges including an aging population, geographic isolation and a need to maintain sustainable economic growth.

The Council has a Community Plan that sets out the aims of the Shetland Partnership over the long term. Partners have been drawn from across the public, private and third sectors in Shetland and includes organisations such as Police Scotland, ZetTrans and the Shetland Charitable Trust.

The Community Plan is supported by a Corporate Plan which outlines how the Council will work together with other members of the partnership to achieve some of the Community Plan aims over a four year period (2016 – 2020). Confusingly, different visions are set out in each of the plans which may prevent the Council and its partners speaking as one about a joint vision for the whole of Shetland.

Community Plan vision:

*'Community Planning in Shetland aims to make Shetland the best place to live and work by helping to create communities that are:*

- *Wealthier and Fairer*
- *Learning and Supportive*
- *Healthy and Caring*
- *Safe*
- *Vibrant and Sustainable*

Corporate Plan vision:

*'By the end of this plan (2020) we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland'*

In order to achieve the Corporate Plan, the Council has identified strategic priorities, aims and areas of focus for Council activity. These are underpinned by '20 things we aim to achieve by 2020' which sets out how the Council intends to deliver its priorities and are detailed overleaf.

The Council has also agreed five local Outcome Areas for the whole of Shetland with its community planning partners. Within each Outcome Area there are approximately three priorities. These outcomes and priorities are included in the LOIP.

In order to determine the strategic direction of Shetland, the Council undertook consultation with different bodies, partners and community members from across Shetland, carrying out activities such as:

- Scenario planning – a process that saw almost 700 people across Shetland taking part through interviews, workshops and an e-survey.
- LOIP development – a process involving 5 workshops themed around the 5 areas outlined in the Community Plan vision.

### Deloitte view

There are similarities between the different sets of outcomes, priorities and aims set out in the **Council's** plans however the differing visions create an unclear picture of where exactly the Council intends to focus in the medium term. Audit Scotland advised in their recent review of Best Value arrangements at another Council that clarity around linking outcomes to a clear vision is a key enabler. Shetland should consider adopting a single overarching vision shared by both the Council and community partners which is supported by a single high level set of priorities/outcomes, with KPIs and funding decisions linked to these priorities.

# Wider scope requirements (continued)

## Council priorities and long term planning (continued)

Does the Council have clear priorities that set the strategic direction?

### Shetland **Islands Council's outcomes and priorities**

Shetland Islands Council has multiple sets of outcomes, priorities and aims to deliver its vision, which is confusing residents and other stakeholders.

#### Local Outcome Improvement Plan key outcomes

- a) Shetland is the best place for children and young people to grow up
- b) We live longer healthier lives and people are supported to be active and independent throughout adulthood and in older age
- c) Shetland is a safe place to live for all our people, and we have strong, resilient and supportive communities
- d) Shetland has sustainable economic growth and all our people have the chance to be part of island life
- e) We deliver all our services in an environmentally sustainable manner to safeguard and enhance our outstanding environment which underpins all our actions and our economic and social well-being

#### Supporting documents

- Five Directorate plans: Community Health & Social Care **Services, Children's Services, Infrastructure Services, Development Services** and Corporate and Executive Services.
- 5 – 6 service plans for each Directorate
- Medium and long term financial plans

#### Supporting strategies

- There are numerous supporting Council strategies including: Asset strategy, reserves strategy, workforce strategy and borrowing strategy.

#### Corporate Plan areas of focus

- Young people;
- Older people;
- Economy and housing;
- Community strength; and
- Connection and access

There are approximately five priorities aligned to each focus area. Five of these are highlighted as 'top priorities' for the Council:

- Complete and move into the new Anderson High School and Halls of Residence.
- Increase the supply of affordable housing in Shetland.
- Improve high-speed broadband and mobile connections throughout Shetland.
- Support older people across Shetland so they can get the services they need to help them live as independently as possible.
- Provide quality transport services within Shetland, and push for improvements in services to and from Shetland.

#### Deloitte view

While the Council has multiple sets of outcomes, priorities and aims to deliver its vision, we recommend that these be reconsidered to ensure better alignment with outcomes.

# Wider scope requirements (continued)

## Council priorities and long term planning (continued)

Does the Council demonstrate effective strategic planning to deliver its vision?

In addition to the supporting plans and strategies the Council has in place to deliver its visions, the LOIP identifies a number of indicators that the Partnership will use to monitor how well it is progressing towards achieving its key outcomes. The Council will monitor these quarterly and undertake an annual review in order to redefine targets and actions where required. Examples of these indicators are illustrated below and will be monitored for completion in subsequent audit years.

LOIP actions:



2020 targets

Indicator	2020 Target
% of children at P1 check at risk of overweight or obesity	12% at P1 check at risk of overweight
Alcohol related hospital admissions	300/100K
% of premises able to link to superfast broadband	100%
Carbon Emissions	42% reduction (34, 500 t CO2 (2007/8))

### Deloitte view

In our review of the LOIP we identified that for several of the indicators linked to outcome a) 'Shetland is the best place for children and young people to grow up', baseline and 2020 targets appear to have not yet been identified.

We recommend that the Council ensure all indicators identified in the LOIP have a baseline and 2020 target clearly identified and documented, and that these targets are outcome focused. We will monitor how the Councils meets these targets over the period of our audit appointment.

# Wider scope requirements (continued)

## Council priorities and long term planning (continued)

Does the Council have a sound process in place for long term financial planning?

### MTFP 2016/17

The Council has a Medium Term Financial Plan (MTFP) in place spanning the five year period from 2016/17 to 2021/22. The MTFP *'provides the financial planning framework for the delivery of services to the population of Shetland'*.

The 2016/17 MTFP is clearly aligned with the **Council's** vision and priorities, with explicit links made to both the Corporate Plan and the LOIP.

The MTFP links to a less detailed Long Term Financial Plan for the period 2015 – 2050.

### Planning process

The planning process is cyclical and takes into account corporate priorities and vision, as outlined within the Corporate Plan, economic and political policy, social data available and known cost and demand pressures.

The initial MTFP was developed in 2012 and forecast the financial position of the Council through to 2017/18. In each subsequent year the original MTFP has been refreshed, taking into consideration the developing financial challenges and long term pressures faced by the Council.

The Council have been creative in involving the community in the planning process by carrying out **'Budget Building'** exercises. This included a series of public meetings throughout Shetland and the use of an interactive on-line budget planning model, to gauge the views of the public on where the 2016/17 budget savings should be made. However, participation was low at approximately 1% and the Council have recognised that this should be expanded in the future.

### Supporting strategies

The MTFP and LTFP are supported by several other strategies which provide a more in-depth insight into budget pressures and their potential long term consequences. Examples include:

- Borrowing Policy and Strategy 2013 – 2018
- Investment and Treasure Strategy
- Asset Investment Plan

### Deloitte view

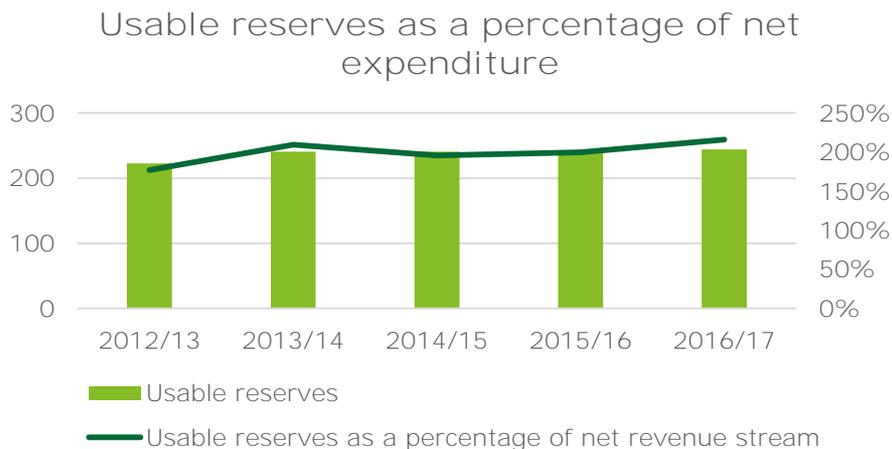
The Council has a clear process in place for long term financial and medium term planning, albeit with a medium term reliance on reserves, that is undertaken on annual basis and ensures that the financial plan links to the Council's vision and priorities.

# Wider scope requirements (continued)

## Council priorities and long term planning (continued)

Does the Council have a sustainable policy in place for the use of reserves?

The Council outlines a reserves policy within the MTFP. The **Council's** strategy is to maintain the value of useable reserves in order to continue providing the capital on which long-term investments are based. Unlike many other **Council's**, **Shetland's** good historic financial performance, mainly arising from harbour and oil activities, have resulted in the Council having a high level of usable reserves. The Council uses these reserves to support the delivery of frontline services by generating income from long-term investments.



In 2016/17 the usable reserves balance increased by £2.195m. The Council plans to use reserves to finance the budgeted funding gap over the next two years, totalling a commitment of £3.76m.

### Deloitte view

Given the **Council's** starting level of reserves, the planned use of reserves to meet the funding gap over the next 2 financial years is sustainable, however, going forward, the Council should ensure that if such an approach is taken moving forward, it should ensure it is only in exceptional circumstances to avoid reducing revenue generation from long-term investments.

# Wider scope requirements (continued)

## Council priorities and long term planning (continued)

Has the Council underpinned sustainability through the achievement of savings targets?

The Council has successfully made year on year savings over the last five years, as detailed below:

Year	Savings Achieved
2011/12	£11.5m
2012/13	£15m
2013/14	£12.5m
2014/15	£12.7m
2015/16	£2.1m

2016/17 Savings Target

£2.985m

The Council was required to find savings of £2.985m in 2016/17 to present a balanced budget. Savings identified included:

- 2% savings applied across all Directorates.
- General saving in relation to staff turnover broken down as follows: Community Health & Social Care £0.166m; Development £0.074m; Corporate & Executive £0.061m; and Children Services £0.024m.

The Council achieved this in-year savings target, as noted on page 27, where an overall underspend was achieved.

### Deloitte view

The Council has achieved significant savings over the last 6 years however due to increasing demand for services and the continuing restraint in relation to Council funding settlements, it will have to consider how it can transform service delivery through its Business Transformation Plan (2016-2020) in order to continue to meet citizen needs with reducing budgets and to avoid relying on the approach of making cuts of 2% savings across the board, which is not sustainable.

# Wider scope requirements (continued)

## Service delivery (continued)

Does the Council have a Transformation Plan that links to the corporate priorities?

### Business Transformation Plan (2016 – 2020)

The Council have identified embracing new technology as a means of revolutionising how public services support everyone who lives and works in the Shetland community. The strategy for this shift towards more digitally focussed service delivery is outlined in the **Council's** Business Transformation Programme (BTP), within which the aim of the programme is clearly stated:

*'To implement a range of measures that will revolutionise how we work with and for our community, responding to and anticipating a digital cultural paradigm.'*

The BTP is underpinned by the **Council's** '20 by 20' commitments featured in the Corporate Plan. These commitments describe how the Council will work within the community to deliver its priorities.



### Service redesign programme

Recognising that the BTP alone cannot deliver whole scale change, the Council have identified a programme of transformation change projects grouped under eight key workstreams.

The expectation is that each work stream will identify its own deliverables and the timescales for activities. These will be supported by programme wide documents such as an overarching policy document and a programme delivery plan.

The success of the plan will be crucial to ensuring that the Council is able to maintain high quality service levels in the face of continuing cost pressures.

What does success look like?

↓ £20m

Reduction in annual revenue budget by 2021

### Deloitte view

The Council is at the early stage of considering the BTP and the transformational projects required to allow it to achieve the recurring revenue reductions to maintain the sustainability of its services. This will be a key area that we will monitor over the course of the audit appointment, including how the Council ensure that projects deliver on time, on budget and most importantly, deliver the expected benefits for the citizens of Shetland. We would also expect to see the Members playing a very active role in the transformation and the Council will also need to ensure it has the transformational infrastructure in place, including PMO, benefits realisation tools and templates and an effective change management strategy to deliver this transformational change.

# Wider scope requirements (continued)

## Members and officers knowledge, skills and resources

How do the Council ensure that Members and officers have the right knowledge, skills and time to lead and manage delivery of the Council priorities?

### Members

This Council is made up of 21 independent elected Members and 1 SNP elected Member from seven wards across Shetland.

The Council has developed a comprehensive induction programme for new Members that was run following the 2017 local elections. The induction included overviews of all of the **Council's** key strategies, ways to avoid pitfalls and the support they receive in their role as Council Members. Members also received induction sessions on Business Transformation and Council Finances. All senior officers participated fully in the facilitation of the induction programme.

Induction activity does not stop after initial delivery of the programme:

- Induction programme assessment and Member satisfaction feedback;
- Programme of prioritised training; and
- Follow up discussions held with members to discuss personal development needs. From these discussions, a member training and development programme will be drafted.

### Officers

The Council has a Workforce Strategy in place covering the period 2016 – 2020. The strategy has 10 key elements grouped within three themes: right shape, right skills and right culture. These are intended to support the **Council's** vision for the workforce:

*'To have committed, enthusiastic, confident, skilled, flexible and customer focussed employees who deliver excellent services to the people of Shetland. To have a fair organisation which values, develops and appreciates its workforce in the provision of excellent services.'*

The Council has not been immune to the UK wide issue of attracting high calibre staff into local government, and this is further exacerbated by the geographical isolation of the islands. The Workforce Strategy includes references to succession planning, with further detail given in Directorate Plans, for example succession planning is highlighted as a priority within the Executive and Corporate Services Directorate Plan (2016/17).

The Council also recognises the importance of ensuring that officers have the appropriate skills and knowledge to effectively fulfil their roles and have outlined several activities within the Workforce Strategy, such as continuing to offer the successful Leading for Outcomes Programme, to support this.

### Deloitte view

Shetland place a great deal of importance of building up strong relationships with Members and this was illustrated in the comprehensive induction programme. Member involvement in transformation is one of the keys to its success. We will review how the needs of officers and buy in of Members are taken into consideration as the Council implements BTP up to 2020.

# Wider scope requirements (continued)

## Citizen involvement

How does the Council involve citizens in decision making about its services?

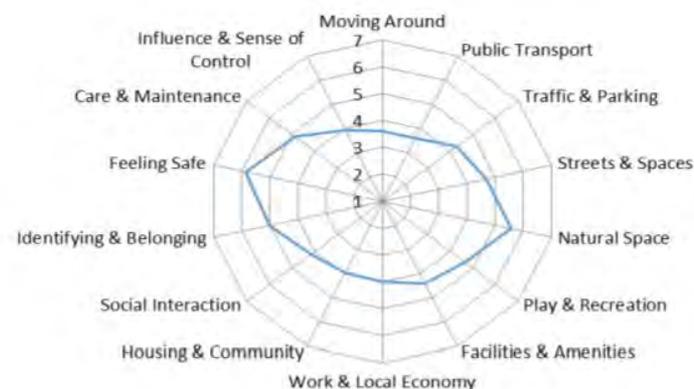
The Council understands the importance of empowering its communities by involving them in decision making and has undertaken several exercises to better understand the preferences of those who live in Shetland.

A key example of one of these initiatives was the Shetland Place Standard (SPS) public consultation that took place in July 2016. The Council invited people to rank the place they live against 14 different themes. Over 900 people took part providing the Council with almost 5,000 individual comments constituting a significant public engagement exercise.

### Average Rating Shetland

1: A lot of room for improvement

7: No improvement



The Council is using the findings of the Place Standard consultation to inform key policies and strategies going forward including:

- Local Outcomes Improvement Plan;
- Local Development Plan;
- Shetland Local Housing Strategy;
- Shetland Transport Strategy; and
- Shetland Islands Health and Social Care Partnership: Joint Strategic Commissioning Plan.

The Council has also made use of exercises such as encouraging participation with the Budget Building tool, mentioned previously, Participatory Budgeting (PB) initiatives such as the case study detailed on the following page and though successful engagement with high school students to encourage participation in the democratic process for a young age.

### Deloitte view

The Council places strong emphasis on encouraging community participation in Council decision making and has an aspiration that 1% of the **Council's** budget should be decided through PB initiatives in the longer term . We will monitor how the Council will ensure that this current engagement approach plays a more significant part in making funding decisions moving forward and we would wish to see clear evidence of engagement directly impacting on Council strategy through the upcoming transformation of Council services through the implementation of the BTP and Service Redesign Programme.

# Wider scope requirements (continued)

## Citizen Involvement (continued)

How does the Council involve citizens in decision making about its services?

### Participatory Budgeting – Case Study

Participatory Budgeting (PB) events have taken place in Shetland since 2010, with seven small grants projects being delivered previously by local communities and community councils, and more than 700 people and 52 voluntary groups taking part in 2016.

In early 2017, the Council was successful in applying to the Scottish **Government's** Community Choices Fund for £50,000 to build on existing PB work. The Council matched this funding commitment and then in March 2017, it asked residents to discuss and prioritise how **they'd** like to see £100,000 spent on local services.

Residents were able to vote online, by post or in person at a **'market stall'** type event to decide which projects to allocate funding to. The Council also provided £9,000 that has been match funded by the Scottish Government, to support three small grant projects in Skerries, Fetlar and Bressay.

More than 1,000 Shetland residents voted to fund projects in the initiative. A total of 5,730 votes were cast to decide which of twenty projects would receive a share of £100,000 of funding.

The successful projects are detailed in the adjacent table.

The Council Leader at the time of the event, Gary Robinson, indicated that **"the** aim in the long term is to have at least 1% of the **Council's** budget decided by a PB method and for increased community involvement to be a more routine way of working. This approach can really engage and empower the community in discussions on public budgets. The challenge remains for us to scale up the influence of the community over the mainstream money spent by the Council."

Bidder/Cause
Fair Food
Shetland Autism Awareness Raising Project
The Golden Girls
Workshops for Young People
<b>'Da Sletts' Footpath Improvements</b>
Zero Cost Coach and Volunteer Development
Brae High School Learning for Sustainability (part funding)

# Wider scope requirements (continued)

## Public performance reporting

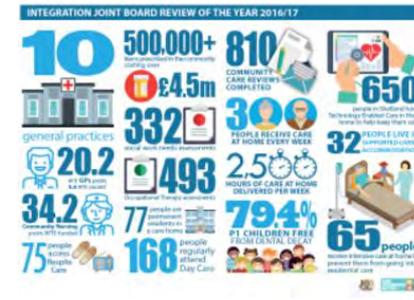
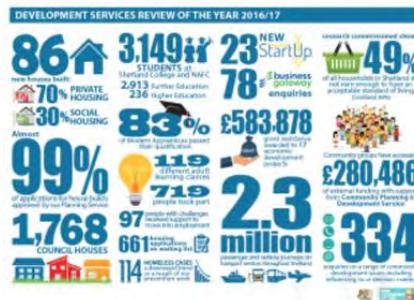
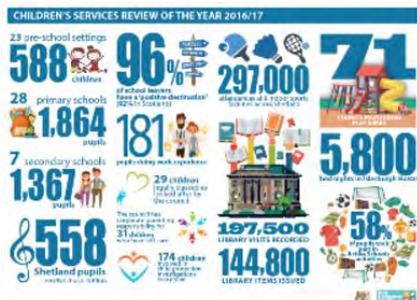
### How does the Council monitor Performance and Outcomes?

The Council uses performance indicators to measure how they are doing. These are linked into groups indicators and local indicators (outlined in service delivery plans, statutory indicators and LOIP indicators). Quarterly updates are provided on performance, the Corporate Plan and indicators from each of the five Directorates and these are reported to the relevant committee. Progress against planned actions is clearly monitored with a status indicator (green, amber or red) and an estimated progress percentage assigned allowing for swift appraisal of overall progress. In addition, an annual performance report is produced, giving community members a snapshot of Council performance during the year.

The year ended 2016/17 marked the first 12 months of the 2016-2020 LOIP and the **Council's** performance for the year was scrutinised by the Shetland Partnership Performance Group. The group clearly engaged with the report and identified several issues including:

- Overdue deadlines slipping behind actions with minimal commentary provided as explanation; and
- Varied consistency of performance reporting across thematic groups.

Performance reports and plans, including quarterly performance updates are available for the public to view on the **Council's** website and are easily found in the section '**Our Performance**'. Performance infographics for each of the Directorates are also produced giving a visual representation of achievements and key statistics.



#### Deloitte view

There is a framework in place to ensure that Council performance is monitored and reported. Performance information is readily available to Shetland citizens and the use of infographics allows this information to be presented in a way that is visually interesting.

# Wider scope requirements (continued)

## Public performance reporting (continued)

### How well is the Council performing?

We have drawn on the Local Government Benchmarking Framework (LGBF) to make a high level assessment of the **Council's** performance, relative to all Scottish councils, in 2015/16 (the latest data available). The LGBF includes a number of indicators organised under common service areas. Performance is summarised in the below table\*.

Shetland Islands Council LGBF Indicators in each quarter, 2011/12 – 2015/16



#### Deloitte view

The number of indicators in the first and second quartile initially improved over the last five years to 51% in 2012/13, before reducing slightly during 2015/16 to 37%. Over the next five years, we will develop a detailed understanding of the **Council's** performance, including:

- How priorities are agreed and reviewed and whether they link the **Council's** vision and Council Plan objectives;
- How the Council is performing against its key priorities and whether the Council is able to demonstrate that improvements in performance can be attributed to its actions (or actions undertaken with partners); and
- The role of elected members in scrutinising and challenging Council performance.

\* The analysis is based on 37 of the LGBF indicators. It does not include indicators that relate to spend/cost, as these may not give a fair reflection of performance. For example, a higher than average spend on roads maintenance could reflect a policy decision to improve the existing condition of roads in the Council area.

# Wider scope requirements (continued)

## National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the **Council's** participation in the National Fraud Initiative (NFI) and progress during 2016/17 and completed an NFI audit questionnaire by 6 July 2017.

A summary of the matches reported in the NFI system is provided in the table which notes that no frauds or errors have been identified from the matches processed to date.

	Total
Total matches flagged	2,482
Total recommended matches to be investigated	569
Total processed	1,628
Frauds	0
Errors	0
Savings	£993

### Deloitte view

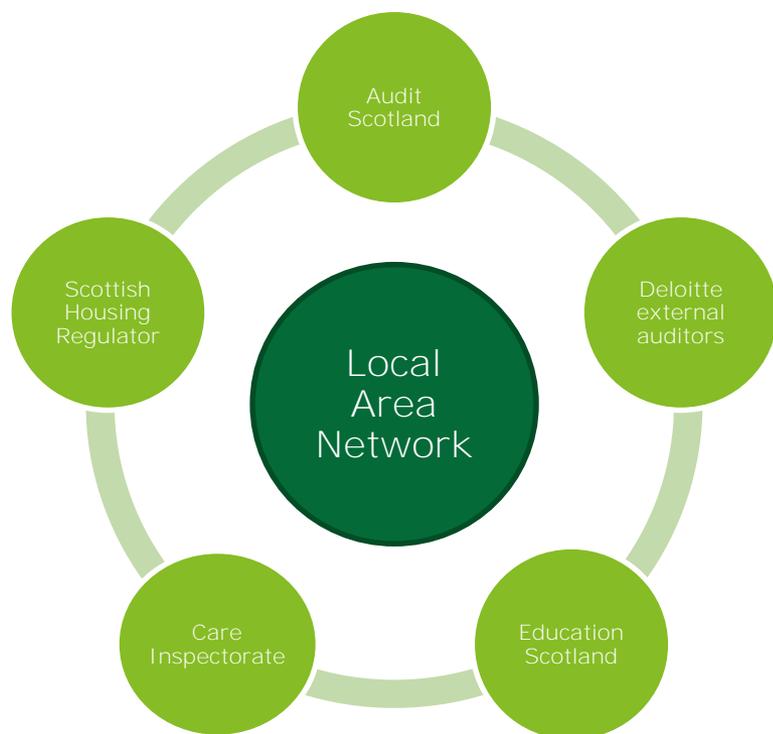
Evidence suggests the Council has engaged with the NFI exercise, however issues have been encountered during the process. Ultimately, a lack of priority given to the exercise by management has led to it being under-resourced and allocated to staff with insufficient authority to leverage the information required across the various service lines. This has been highlighted and discussed by the **Council's** finance management as an issue to be addressed in the short term future, recognising the fact that no frauds or errors have been identified to date.

We have also noted that the Council has not used the self-assessment checklist published with the 2014/15 Audit Scotland report. We would recommend that this is used by both the key NFI contact and the Audit Committee to help monitor planning and progress with the NFI exercise.

# Wider scope requirements (continued)

## Local Area Network

We continue to actively participate in the Local Area Network (LAN) and make positive contributions to the Local Scrutiny Plan. The LAN met in December 2016 to update the shared risk assessment, and the LAN Lead met with the Chief Executive in February 2017. The Local Scrutiny Plan 2017/18 was published by Audit Scotland in March 2017.



### Conclusion

No specific risks were identified in the shared risk assessment this year. However, the LAN identified a number of areas which form part of the on-going oversight and monitoring work carried out by scrutiny partners. This work includes the following issues:

- Long Term Financial Planning – We have provided commentary on this risk on page 38 of this report.
- Framework for monitoring performance – We have provided commentary on this risk on page 47 of this report.
- Shetland Integration Joint Board – this has been considered as part of our separate audit of the Board.

# Wider scope requirements (continued)

## Grant claim work

As part of our audit procedures, we have completed our review of the following grant claims / returns by the audit deadlines set by Audit Scotland:

Grant	Deadline	Status	Issues
Education maintenance allowance	31 July 2017	Completed	None
Criminal justice social work services grant claim	30 September 2017	On Target	None to date
Non-domestic rates income return	9 October 2017	On Target	None to date
Housing benefit subsidy	30 November 2017	On Target	None to date

### Conclusion

We are on target to complete all grant claim work in line with Audit Scotland deadlines.

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

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

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

## What we don't report

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

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

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

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

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary **"Briefing on audit matters"** circulated to you earlier in the year.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

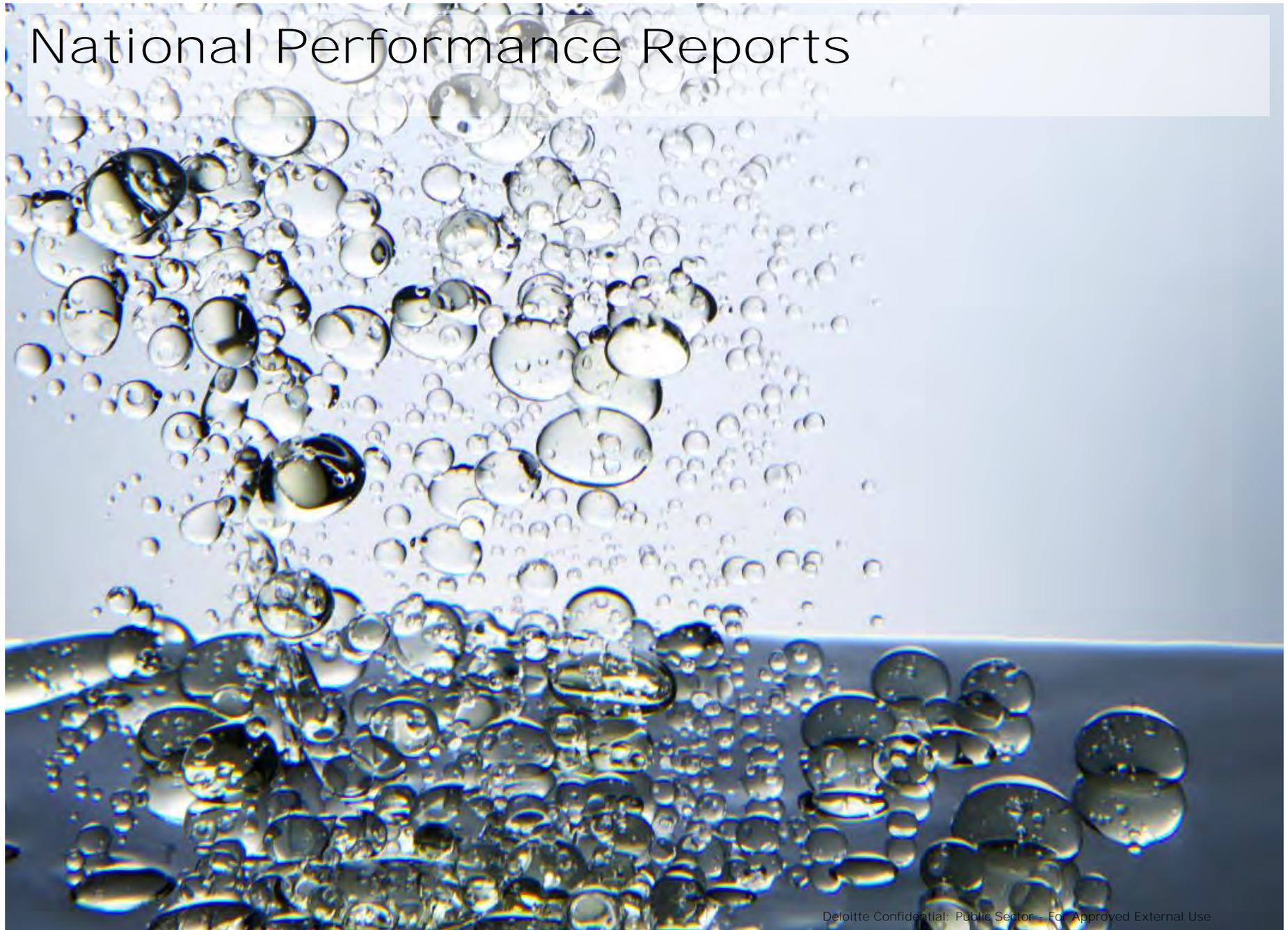


Deloitte LLP

Glasgow

13 September 2017

# National Performance Reports



# National performance reports

## Summary of reports issued over the past year

How councils work (HCW) – Roles and working relationships in Councils: Are you still getting it right?

Published November 2016

### Headline messages

The Accounts Commission revisits the themes in its 2010 HCW report on roles and working relationships. It highlights issues that are important to the governance of Councils in the current climate.

The messages highlighted in this report centre on the main themes of the original HCW of:

- clear roles and responsibilities and arrangements for governance that are up to date
- effective working relationships, with councillors and officers demonstrating appropriate behaviours
- councillors having the skills and tools to carry out their complex and evolving role

### Impact on Shetland Islands Council

The Council should consider how this report and the checklists will support councillors in their difficult and challenging role. It should also help councils to consider their current governance arrangements and make any necessary changes, including their preparations for the new intake of councillors following the May 2017 local government election.

Local Government in Scotland: Financial Overview 2015/16

Published November 2016

### Headline messages

Councils have remained within their overall budgets, increased their reserves slightly and reduced their debt in 2015/16. Each Council has its own particular challenges but all Councils face financial shortfalls requiring further savings or using reserves. They need to change the way they work if they are to make the savings needed.

### Impact on Shetland Islands Council

Throughout the report, Audit Scotland identify questions that Councillors may wish to consider to help them better understand their **Council's** financial position and to scrutinise financial performance. These are available in the self assessment tool for Councillors.

# National performance reports (continued)

## Summary of reports issued over the past year (continued)

### Local Government in Scotland: Performance and Challenges 2017

Published March 2017

#### Headline messages

Councils overall have maintained or improved their performance in the face of a long-term decline in Scottish Government real term funding and continued increasing pressures on services. However, public satisfaction is declining and complaints are increasing. Looking ahead, they need to better involve their communities in service design and delivery.

There are wide variations between Councils. Some have grasped the nettle in finding new ways to provide services more efficiently. Others have been slower off the mark. Councils have made savings by cutting jobs but half of them still **don't** have organisation-wide workforce plans.

#### Impact on Shetland Islands Council

The Council should consider the recommendations made in the report (copied here for reference), when setting priorities and budgets for future periods.

#### Recommendations

Councils should:

- Set **clear priorities** supported by **long-term strategies** and **medium-term plans** covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions.
- Ensure that **budgets are clearly linked** to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year.
- Have an **organisation-wide workforce plan** to ensure the Council has the people and skills to manage change and deliver services in the future.
- Ensure **workforce data** allows thorough analysis of changes to the workforce at an organisation-wide and departmental level. This will allow Councils to better assess the opportunities and risks in staff changes.
- Thoroughly **evaluate all options for change and service redesign**, including options for investing to save, and monitor the impact of change on Council priorities and desired outcomes
- **Support communities** to develop their ability to fully participate in setting Council priorities and making decisions about service redesign and use of resources.
- Ensure **councillors** get support to develop the right **skills and knowledge** to fulfil their complex and evolving roles
- Ensure there is clear **public reporting of performance** linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas.
- Continue to work to understand the **reasons for variations in unit costs and performance**, and **collaborate** to identify and adopt good practice for each other.

# Appendices



# Audit adjustments

## Summary of corrected and uncorrected misstatements and disclosure deficiencies

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

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		Debit/ (credit) Assets £m	Debit/ (credit) Liabilities £m	Debit/ (credit) Reserves £m	Debit/ (credit) CIES £m	If applicable, control deficiency identified
Investment Income	(1)	(0.74)	0.74			N/A
Total		(0.74)	0.74			

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(1) The Council was informed by fund managers that investment income of £0.74m would be receivable in October 2016. The Council agreed, per the fund management agreements, that this would be immediately re-invested. This led to the recognition of both a debtor and a creditor for this amount. However, this was reversed incorrectly when the transaction took place in October 2016 resulting in a misstatement of the debtor and creditor amounts. This adjustment is to reverse the incorrect reversal and reverse the original journal in order to reach the correct year end position.

No uncorrected misstatements have been identified from our audit work to date.

No uncorrected disclosure deficiencies have been noted from our audit work to date.

# Action plan

## Recommendations for improvement (1/3)

Area	Recommendation	Management Response	Responsible Person	Target Date	Priority
National Fraud Initiative	When completing the NFI Questionnaire, it was noted that various items were outstanding and that this arose due to resourcing and staffing issues. The Council should ensure that appropriate resources are put in place to address the NFI matches on a timely basis.	Additional resources are planned to be allocated to the completion of the NFI going forward.	Jonathan Belford, Executive Manager - Finance	31 March 2018	Moderate
PPE Valuations	The valuation carried out in the current year was relatively basic and a number of issues were identified with the approach taken. A number of recommendations have been made in review of the valuation exercise, undertaken by our property specialists. These points should be considered when preparing the valuation report in the coming year. Deloitte note that the Council is currently in the 5th year of the rolling revaluation programme and is midway through updating its valuation approach.	The valuers have noted all the points raised by Deloitte and have agreed that these points will be considered in valuations going forward.	Robert Sinclair, Executive Manager – Capital Programmes	31 March 2018	Moderate

# Action plan

## Recommendations for improvement (2/3)

Area	Recommendation	Management Response	Responsible Person	Target Date	Priority
Fishing quota valuation	The Council should request additional information regarding any assumptions used (e.g. if it references prices offered - these should be attached in an appendix to the valuation with evidence). It should also be made clear as part of the valuation letter how the valuer has satisfied themselves that the fishing quota allocation is accurate (i.e. by agreeing to the Government listing). This information should be requested so that the Council can satisfy itself that the valuation reached is appropriate and that the valuation has been carried out to an appropriate level.	Management have agreed to obtain additional documentation to back up the valuation is appropriate.	Jonathan Belford, Executive Manager - Finance	31 March 2018	Moderate
Journal Entry Listing	As part of year end reporting, the full journal entry listing should be reconciled to the trial balance used to generate the financial statements. The risk of not performing this reconciliation is two-fold: i) the trial balance may be incomplete if journals are missing and as a result the financial statements will be incorrect; and ii) as part of our audit procedures the journal listing we receive could be incomplete if it does not tie to the trial balance, raising the possibility that fraudulent journal entries are being posted that we do not have visibility over when performing our audit procedures.	Management has taken this on board and the finance team will produce a reconciliation in future periods.	Jonathan Belford, Executive Manager - Finance	31 March 2018	Moderate

# Action plan

## Recommendations for improvement (3/3)

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Area	Recommendation	Management Response	Responsible Person	Target Date	Priority
Leases	As part of procedures on operating leases we noted that some leases were not signed by both parties, and other leases - although signed - were missing pivotal information (e.g. rent amount, the start and end date of the lease). These issues were noted in leases both where the Council is the lessor and where the Council is the lessee. All lease agreements should be signed by both parties, with all key terms clearly defined within.	Management accepts these points, noting that it is their intention and practice that these issues should not arise in the first instance and that going forward they will ensure these issues do not recur.	Robert Sinclair, Executive Manager – Capital Programmes	31 March 2018	Moderate
Strategic Priorities	While the Council has multiple sets of outcomes, priorities and aims to deliver its vision, we recommend that these be reconsidered to ensure better alignment with outcomes.	Agreed.	Mark Boden, Chief Executive	31 March 2018	High

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# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

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



### Audit work performed:

In our planning we identified the risk of fraud in complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

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

**In addition, we have reviewed management's own** documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No issues have been identified through the fraud procedures performed throughout the audit.



# Independence and fees

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

<b>Independence confirmation</b>	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
<b>Fees</b>	<p>The audit fee for 2016/17 is £217,556 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the <b>company's policy for the supply of non-audit services</b> or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



# Events and publications

## Our events and publications to support the Council

### Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

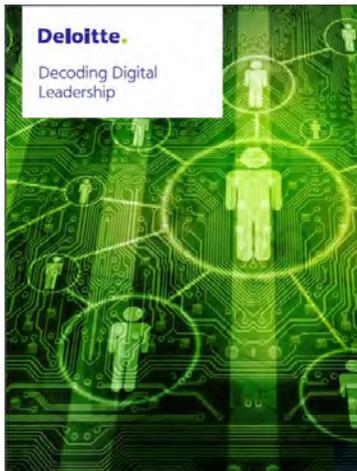
Perspectives: Health & Social Care - The great integration challenge Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

Perspectives: **The public sector's** talent retention challenge – How can a talent drain be avoided? Although global governments are increasingly conscious of the value of **skills, the UK's public sector workforce** has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

### Publications



#### Decoding Digital Leadership Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' **only four times in its reform plans, while the 2015 Review mentioned it 58 times.** With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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