

ACCOUNTS COMMISSION

MEETING 20 JANUARY 2011

REPORT BY THE CONTROLLER OF AUDIT

SHETLAND ISLANDS COUNCIL – ANNUAL AUDIT 2009/10

A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

Introduction

1. The auditors have completed their 2009/10 audit of Shetland Islands Council and I have received the audited accounts for the year ended 31 March 2010 and their report on the year's audit.

Qualified opinion on the financial statements

2. The auditors have given a qualified opinion on the financial statements of Shetland Islands Council for the fifth consecutive year. The qualification relates to the fact that the council has not included the results of the Shetland Charitable Trust (SCT) in its group accounts for 2009/10.
3. In its findings following the public hearing in June 2010 the Commission stated that it had heard no reason which would lead it to disagree with the appointed auditor on this matter.
4. The *Code of Practice on Local Authority Accounting in the United Kingdom- a Statement of Recommended Practice (the SORP)* requires group accounts to be prepared by local authorities where they have interests in subsidiaries, associates and joint ventures. Group financial statements are required to present a true and fair view of the authority's activity and financial position. The council has not included the results of the Shetland Charitable Trust (SCT) in its group financial statements for 2009/10. In the auditor's opinion, the substance of the council's relationship with this body represents a significant interest and this omission results in a material mis-statement of the group accounts. Based on prior year financial statements, the auditors estimate that the Shetland Charitable Trust and its subsidiaries would add £2 million to the group surplus and £176 million to the group balance sheet.
5. The Report to Members and the Controller of Audit on the 2009/10 Audit can be found at http://www.audit-scotland.gov.uk/docs/local/2010/fa_0910_shetland.pdf. The report states that the 2009/10 audit also identified a significant number of late adjustments to the financial statements and areas of non-compliance with accounting requirements. The auditor also expressed concerns over the council's preparedness for the introduction of International Financial Reporting Standards in 2010/11 and noted that the council did not submit Whole of Government (WGA) draft accounts for audit to comply with government deadlines. In addition, it was reported that the council has not yet resolved ongoing financial governance issues including those relating to the transfer of Shetland Towage pensions.

These issues lead the auditors to conclude that there remain concerns over financial stewardship and reporting within the council.

6. The council has agreed a series of improvement actions in response to the findings which are detailed in the report. These actions include the Head of Finance being given responsibility for liaising with the Shetland Charitable Trust to identify options to resolve the qualification for the 2010/11 accounts. The Head of Finance is also receiving experienced support to compile a set of improved procedures for the preparation of the 2010/11 accounts. Progress against these actions is to be monitored by the council and the auditors.

Recent developments

7. Following the public hearing in June the Commission published its findings on 16 August 2010. In the findings, the Commission stated:

'The Commission will continue to monitor the circumstances of the council through the council's external auditors, and notes that the recently-agreed Assurance and Improvement Plan also sets out planned strategic scrutiny activity for Shetland Islands Council over the period to March 2013. The next version of the Assurance and Improvement Plan will reflect the Commission's findings and recommendations.'

'We require a further report by the Controller of Audit in around 12 months' time on progress made by the council. We will give consideration at that point to any further measures that need to be taken.'

8. On 10 November the council accepted the Commission's recommendations and approved an improvement plan.
9. The improvement plan sets out a range of workstreams and associated milestones which include the introduction of new political management arrangements, the development of a medium to long term financial strategy and the creation of a new chief officer structure during 2011.
10. The council has been working with the Improvement Service and has engaged external consultants to support its improvement work.

Future audit work

11. The auditors are monitoring the council's progress on delivering its improvement plan through regular ongoing discussions with the Chief Executive and other senior officers. This monitoring is taking place as part of the annual audit process, and will be supplemented by specific audit work in during 2011. The timing of the audit work will be informed by the milestones set out in the council's improvement plan and I propose to report back to the Commission in December 2011.

Conclusion

12. The purpose of my report is:

- to bring the Accounts Commission's attention to the fact that the auditors have qualified the accounts of Shetland Islands Council for the fifth

consecutive year, because of a disagreement about the accounting treatment of Shetland Charitable Trust in the Council's group accounts.

- to update the Commission on my proposals for monitoring progress in the council during 2011.

FRASER McKINLAY
CONTROLLER OF AUDIT
07 January 2011

