

# Comhairle Nan Eilean Siar

**Report to Members on the 2005/06 Audit**



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# Key Messages

## Introduction

In 2005/06 we looked at the key strategic and financial risks being faced by the Comhairle. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

## Key issues from 2005/06 audit

In this section we summarise the main issues arising from the 2005/06 audit, which are centred around:

- the audit of the financial statements and the issue of a qualified opinion;
- the results of the best value audit and recent progress on some of the matters raised, including the Chief Executive's review;
- review of the Comhairle's statutory performance indicators (SPIs);
- the Comhairle's system of internal control.

We have given a **qualified** opinion on the financial statements of Comhairle Nan Eilean Siar for 2005/06. We have disagreed with the Comhairle's accounting treatment of grants to other bodies of £1.859 million. There has also been a limitation in the scope of the audit as the Comhairle has not formally revalued its housing stock within the five years required by accounting standards. The circumstances behind these qualifications are fully outlined in the financial statements section of this report. Other than these issues, however, we have concluded that the financial statements present fairly the Comhairle's financial position at 31 March 2006. We have drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis as the bus operation generated a loss of £0.232 million. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

The best value audit has concluded that improvements could be made in the Comhairle's political and corporate governance arrangements. For example, elected members need more opportunities, and better information, to enable them to consider strategic policy development and monitor progress against objectives. The Comhairle has commissioned the Chief Executive to undertake a 'root and branch' review, but this has only recently resulted in production of a consultation document in order to enable the findings from the best value report published in August 2006 to be taken into account. The Comhairle now needs to progress this review, and increase the pace of change, prior to the forthcoming elections in May 2007.



The Audit and Scrutiny Committee adheres to the guidance note on *Audit Committee Principles in Local Authorities in Scotland* but the Comhairle has recognised that its role needs to be strengthened and its profile raised. Although a risk management framework is in place, in common with other councils more needs to be done to embed a culture of risk management throughout the organisation. The Comhairle also needs to improve internal controls within its payroll system, improve information security and be more responsive in actioning recommendations to improve internal control.

The Comhairle currently relies heavily on SPIs for most of its performance management information. There has been an improvement in procedures to calculate the SPIs this year, although there continue to be issues on the reliability of some of the indicators. While recognising that the Comhairle has started from a lower base than other councils and that significant improvements have been made in the provision of basic services across the islands, the best value audit highlighted that service performance is mixed and that levels of performance generally are not keeping pace with other councils. This year only 10 (25%) of SPIs showed improvement from 2004/05.

The Comhairle needs to develop its performance management framework to identify where improvements are required and whether resources are being used most effectively. The Comhairle recognises the limitations of its current corporate strategy and has plans to ensure that the next strategy includes clear outcome focused targets. Some recent progress has also been made to strengthen the link between policy and budgeting and steps are being taken to develop an asset management plan to demonstrate best value in the use of assets.

The financial results for the year were £8.764 million better than planned, with an unallocated general fund balance of £3.985 million at 31 March 2006 compared to a target of £1.8 million. A range of financial issues which could impact on the reserves position are highlighted below.

## **Outlook for future audits**

In common with other Scottish councils, Comhairle Nan Eilean Siar has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. Provision of £3.7 million has been recognised in the 2005/06 financial statements for the estimated one-off cost of these payments. While moves to agree compensation payments help to reduce financial risk in this area, there remain risks while existing pay and reward structures remain in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.



The planned implementation of the single status agreement in the Comhairle has been delayed pending discussion with the trade unions over the pay model to be applied. Until a local agreement is concluded the initial and continuing costs of single status cannot be reliably estimated. This represents a significant financial risk to the Comhairle. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. The Comhairle is considering pay models of 8% and 10% of current pay costs and has set aside £1.6 million in its 2006/07 budget. In securing a local agreement the Comhairle needs to maximise the opportunity for service and job redesign to ensure it achieves value for money from its investment in staff.

The Comhairle plans to use £3 million of its balance at the year end to support the revenue budget over the next two years. This will reduce reserves below the target level of £1.8 million to deal with contingencies and the Director of Finance has acknowledged that the Comhairle will have to consider how to reinstate the general fund balance during 2006/07. The Comhairle has yet to set an indicative council tax level for 2007/08 as adopting the Scottish Executive's recommendation of a maximum increase of 2.5% would result in a revenue budget deficit of £3.2 million. The Comhairle is taking a strategic approach to balancing the budget, including supporting COSLA in arguing for additional resources. Significant financial issues which need to be resolved in the immediate future include the funding of grants to community groups as, under current rules, these cannot be financed from borrowing, and the profitability of the bus operation.

The development and implementation of a best value improvement plan provides an opportunity to address the fundamentals of performance management. This area is likely to present a significant challenge in the years ahead, particularly the development of an improvement culture which can take some time to embed.

Increasingly, if the Comhairle is to deliver effectively on the objectives set out in its corporate plan, it needs to ensure that services are joined up with other parts of the public sector. In general, the relationship between the Comhairle and the Health Board has been poor. Recently there has been much publicity on problems experienced by the Health Board. The changing management and organisational arrangements in this body provide the Comhairle with an opportunity for a fresh start to improve relationships.

A number of adjustments were required to the 2005/06 unaudited accounts to improve compliance with the SORP, particularly the group accounts which were produced for the first time this year. Further changes to accounting rules will have a significant impact on the presentation of the 2006/07 annual financial statements. The Comhairle should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure transparency.

This is the final year of our current appointment to the audit of the Comhairle. From 2006/07 Audit Scotland will remain as the Comhairle's appointed auditor and the new engagement lead will be Peter Tait.

**Audit Scotland  
October 2006**



# Introduction

1. This report summarises the findings from our 2005/06 audit of Comhairle Nan Eilean Siar.
2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Comhairle's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Comhairle during the course of our audit work.



# Performance

## Introduction

4. In this section we summarise key aspects of the Comhairle's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the best value audit which was carried out during the year and the findings of national performance audit studies.

## Corporate objectives and priorities

5. The Corporate Strategy for 2004 – 2007 contains a single corporate priority, providing best value services, supported by nine strategic themes which cut across a variety of services:
  - Giving priority to creating a diverse economy
  - Listening and responding to the community
  - Developing our staff
  - Building on our cultural and social strengths
  - Promoting the gaelic language and lifelong learning
  - Promoting our heritage and culture
  - Improving our health and well being
  - Providing leadership for the Islands
  - Promoting the distinctive identity of Na H-Eileanan An Iar
6. A total of 80 strategic objectives support these themes. In December 2005, the Comhairle identified three themed priorities in recognition that such a large number of strategic objectives required prioritisation. The priority themes, which are consistent with the Community Plan, are:
  - Economic Development – giving priority to creating a diverse economy;
  - Leadership for the Islands – improving health and well being, developing our staff and listening and responding to the community;
  - Promoting the distinct identity of the Western Isles – a distinctive heritage and culture, the Gaelic language and lifelong learning and building on cultural and social strengths.
7. The Comhairle recognises the limitations of its current corporate strategy and has plans to ensure that the next strategy, produced in 2007, includes clear outcome focused targets to enable the Comhairle to monitor, report and be held accountable for its performance at a strategic level. The Comhairle plans to publish its public performance report for 2005/06 before the end of the year.



## Overview of performance in 2005/06

### Best value audit

8. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
9. The Comhairle received a full best value audit in 2006, with the report published in August 2006. The audit concluded overall that:

Comhairle Nan Eilean Siar has a vital role to play in the well-being of its area, and has strong foundations in its local communities. It has raised the standard and availability of local services across the Western Isles from a very low starting point, and its long-term vision is supported by energetic members and committed employees.

However, tangible plans for achieving this vision are not well developed and while some of the foundations have been established, the Comhairle has not addressed Best Value in a sustained and structured manner.

The Comhairle needs to develop an effective and systematic approach to continuous service improvement. To respond to its challenging agenda, a more focused approach to Best Value is required and the Comhairle needs to improve corporate discipline, for example in the way that it uses performance management, and policy led budgeting to meet its objectives. Elected members and senior management need to place more emphasis on strategic policy development and leadership of Best Value and Community Planning.

10. The Comhairle is currently developing an improvement plan in response to the issues raised by the audit. Progress against this plan will be monitored through the normal audit process.

### Statutory performance indicators

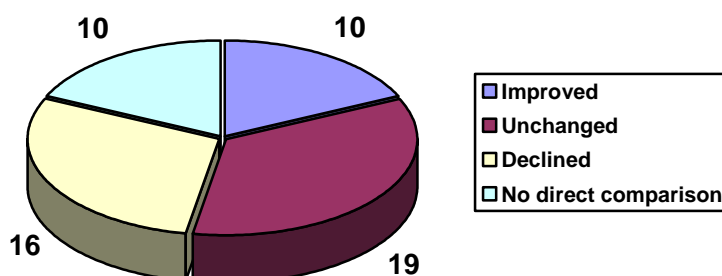
11. The Comhairle currently relies on statutory performance indicators (SPIs) for most of its performance management information. Despite this, last year we reported a fall in the quality of indicators prepared by the Comhairle, with eleven of the sixty five indicators (17%) assessed as unreliable and two failures to report. This year there was some improvement in quality, with five of the fifty five indicators (9%) assessed as unreliable and no failures to report.

**Action point 1**





12. Overall, the Comhairle's year on year performance is disappointing, with only ten (25%) of the indicators showing improvement from 2004/05:



13. Substantial improvements have been made in attendance at sports and leisure facilities and the number of street light repairs completed within seven days. However, performance has declined markedly in other areas such as:

- the cost of collecting council tax;
- the percentage of children seen by a supervising officer within 15 days;
- the academic attainment of looked after children;
- the percentage of council house sales completed within 28 days.

## Performance outlook – opportunities and risks

14. We have identified some of the strategic risks to Comhairle Nan Eilean Siar delivering on its stated objectives and priorities. These risks have been grouped into five risk themes.

## Demonstrating good governance and real accountability

15. A sound framework of governance underpins credibility and confidence in public services. Weaknesses in this framework will lead to risks to the effectiveness of the Comhairle, either directly or by undermining confidence. The best value audit has highlighted that improvements could be made in the Comhairle's political governance arrangements. For example, elected members need more opportunities, and better information, to enable them to consider strategic policy development and monitor progress against objectives.



16. The Comhairle has commissioned the Chief Executive to undertake a 'root and branch' review of political and managerial structures and processes. Corporate discipline, raised management standards and better management information have been identified as priority development areas, recognising that there is a risk that senior management focus on departmental agendas rather than take a more corporate approach. The review has only recently resulted in production of a consultation document in order to enable the findings from the best value report published in August 2006 to be taken into account. The Comhairle now needs to progress this review, and increase the pace of change, prior to the forthcoming elections in May 2007. We intend to monitor progress during the 2006/07 audit.
17. Although the Comhairle has committed elected members who maintain close engagement with communities, there is a risk of over-reliance on key individuals and informal arrangements rather than a systematic approach to consultation. Engagement and responsiveness to vocal local interest groups must be balanced with the need for local democracy and accountability to the community as a whole. The Comhairle has recognised that it needs to improve its reporting of performance to the public and has identified a number of gaps in the current approach, particularly in reporting service performance.

## **Funding and supporting local services**

18. The sustainability of the area and of local services is a key challenge for the Comhairle in the context of tightening financial settlements. In the absence of a comprehensive policy-led approach to budgeting, there is a risk that the Comhairle does not target scarce resources on identified priority areas. The Comhairle has an effective budgetary control system but the lack of a rigorous performance framework makes it difficult to measure whether resources are being successfully directed to meet agreed policy priorities.
19. Some recent progress has been made to strengthen the link between policy and budgeting. Service budgets have been linked to the Corporate Strategy and business plans have been produced for each service for 2006/07.
20. Increased freedoms are available to the Comhairle, such as the prudential code which introduced greater flexibility in relation to capital expenditure, but these freedoms require to be utilised in a way that is affordable, prudent and sustainable and based on robust asset management planning. In common with a number of councils, the Comhairle does not yet have a comprehensive asset management plan to demonstrate best value in the use of assets. An officer has recently been appointed with a specific remit for this and work is currently underway.



## Using performance to drive service improvement

21. While recognising that the Comhairle has started from a lower service base than other councils and that significant improvements have been made in the provision of basic services across the islands, the best value audit also highlighted that service performance is mixed and that levels of performance generally are not keeping pace with other councils. The Comhairle needs to develop its performance management framework and culture to identify where improvements are required and whether resources are being used most effectively. Currently there is no mechanism in place for adequately monitoring performance against corporate objectives.
22. The development and subsequent implementation of a best value improvement plan provides an opportunity to address the fundamentals of performance management. This area is likely to present a significant challenge to the Comhairle in the years ahead, particularly the development of an improvement culture which can take some time to embed.

### Action point 2

## A sustainable workforce

23. People play the key role in the delivery of high performing services and the Comhairle needs to have the right skills, in the right place, at the right time. Due to the location of the islands, there are particular workforce challenges for the Comhairle as a significant employer in the area. Similar to other areas of Scotland, the islands are facing an aging population which will restrict the future pool of potential staff and increase pressure on services, for example in care of the elderly.
24. Whilst the Comhairle recognises the potential difficulties arising from these problems, a corporate approach to strategic human resources has not yet been agreed. The Comhairle faces a major challenge in terms of succession planning as a number of key services depend on the skills and knowledge of a small number of individuals. There is a risk that the loss of key people could have a significant and detrimental effect on service delivery.

## Effective partnership working

25. Increasingly, if the Comhairle is to deliver effectively on the themes and objectives set out in its corporate plan, it needs to ensure that services are joined up with other parts of the public sector to focus the design of services around the needs of individuals and communities.



26. In June 2006, Audit Scotland published *Community planning – an initial review* which found that community planning is progressing, but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular, the large number of national policy initiatives, each with their own funding arrangements, can make it difficult for partnerships to plan and deliver effectively.
27. The best value audit concluded that the Comhairle's community planning needs to move forward in a more structured and focused way. Although the Outer Hebrides Community Planning Partnership has been in place since 2001 there is little evidence to demonstrate any significant improvements across all its strategic objectives for the delivery of public services.
28. The draft scheme of partnership for the establishment of the Community Health Partnership in the area was late and, in general, the relationship between the Comhairle and the Health Board has been poor. Recently there has been much publicity on problems experienced by the Health Board. The changing management and organisational arrangements in this body provide the Comhairle with an opportunity for a fresh start to improve relationships. Otherwise there is a significant risk that partnership working is insufficient to drive forward real improvements for the local community. The terms of a partnership agreement with the Health Board have now been agreed.

### Action point 3

## National studies

29. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year on reviews of public sector pension schemes, community planning and the National Fraud Initiative are summarised elsewhere in this document. Other reports published during the year and of direct interest to the Comhairle are set out below. Further information on these studies and reports can be obtained from Audit Scotland's webpage at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## **A mid-term report: a first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21<sup>st</sup> Century***

30. In May 2006 Audit Scotland published the results of a review of the implementation of the teachers' agreement arising from the McCrone report. This found that the agreement has brought benefits for the teaching profession, but the lack of performance measures makes it difficult to assess the wider impact of the £2.15 billion investment. The report recommends that the Scottish Executive work with other parties to the agreement to identify and report on a set of comprehensive performance measures.



## **Council housing transfers**

31. In March 2006 Audit Scotland published the results of a review of how well the Scottish Executive's housing transfer policy has been implemented and whether transfers have provided good value for money. This found that the transfer of council housing ownership is bringing benefits for tenants, including more investment in properties, promoting tenant control, facilitating increased repairs and maintenance and the building of new homes, and keeping rent increases down. The report also found that the management of transfers is improving but better, clearer measures are needed to assess impact and value for money.
32. On 12 September 2006 the Comhairle transferred its housing stock to the Hebridean Housing Partnership. The transfer arrangements, including an assessment of the Comhairle's arrangements to satisfy its statutory housing duties post-transfer and the effectiveness of partnership arrangements to ensure a joined-up service to tenants, are likely to be reviewed during future audits.

## **Following the public pound – a follow-up report**

33. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information about their funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.
34. The study found that no council fully complied with the guidance, although only five councils had a low level of compliance. Comhairle Nan Eilean Siar was included in the moderate category of compliance.
35. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the council's objectives, have arrangements for scrutiny and explore joint working with other councils.



# Financial position

## Introduction

36. In this section we summarise key aspects of the Comhairle's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

## Council tax and the general fund

### Revenue performance 2005/06

37. The Comhairle's net revenue expenditure in 2005/06 was £99.492 million and was met by government grants and local taxation of £99.453 million, resulting in a net general fund deficit of £0.039 million.

38. The budget set for 2005/06 was based on a Band D council tax level of £956 and included a contribution of £8.803 million from the general fund. The overall results for the year were £8.764 million better than planned as a result of:

- underspends on centrally held and unallocated budgets of £4.661 million;
- additional dividend from BCCI of £1.595 million;
- improvements in tax collection of £0.734 million;
- a net underspend on Joint Board requisitions of £0.581 million;
- increased interest received of £0.442 million;
- a net underspend on services of £0.222 million.

39. During the year the Comhairle experienced considerable pressure on its Social Work budget as a result of a small number of mainland placements for children and adults, and at December 2005 was projecting an overspend of £0.682 million. By 31 March 2006, Social Work Services had reduced this overspend to £0.458 million which was met by the underspends noted above.

## Reserves and balances

40. At 31 March 2006 the Comhairle had total cash backed reserves and funds of £12.665 million.



## Reserves and Funds 2005/2006

Description	2005/06 £ Million	2004/05 £ Million
General Fund	10.280	10.319
Usable Capital Receipts Reserve	2.107	0.984
Repair and Renewal Funds	0.278	0.278
	<b>12.665</b>	<b>11.581</b>

41. In setting its 2005/06 budget the Comhairle's strategy was to maintain an unallocated general fund balance of £1.8 million. At 31 March 2006, the Comhairle has earmarked amounts totalling £6.295 million, leaving an unallocated general fund balance of £3.985 million. In his Foreword to the financial statements, the Director of Finance highlights that the Comhairle plans to use £3 million of this unallocated balance to support its revenue budget over the next two years. As this will reduce the balance below the £1.8 million required to cover contingencies, the Director of Finance acknowledges that the Comhairle will have to consider how to reinstate the unallocated general fund balance during 2006/07. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below.
42. Significant earmarked amounts include:
- costs of loans fund restructuring of £1.268 million;
  - departmental carry forward of unspent revenue budgets totalling £0.842 million;
  - modernised government fund monies of £0.568 million;
  - investment in roads of £0.500 million;
  - an efficiency fund of £0.500 million;
  - the housing revenue account earmarked balance of £0.446 million.

## Group balances and going concern

43. The Comhairle has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member, including future pension costs. All of these boards (Northern Joint Police Board, Highland and Islands Fire Board and Highland and Western Isles Valuation Joint Board) had an excess of liabilities over assets at 31 March 2006 due to the accrual of pension liabilities. In the case of Northern Police and Highland and Islands Fire these deficits are substantial at £382 million, with the Comhairle's group share being £68.6 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current resources as payments fall due.



44. The overall effect of inclusion of the Northern Joint Police Board and Highland and Islands Fire Board on the group balance sheet is to reduce net assets by £63.678 million, substantially as a result of these liabilities. The results of the Highland and Western Isles Valuation Joint Board have not been included as they are not material to the group. The accounts of all the bodies included in the group have been prepared on a going concern basis.

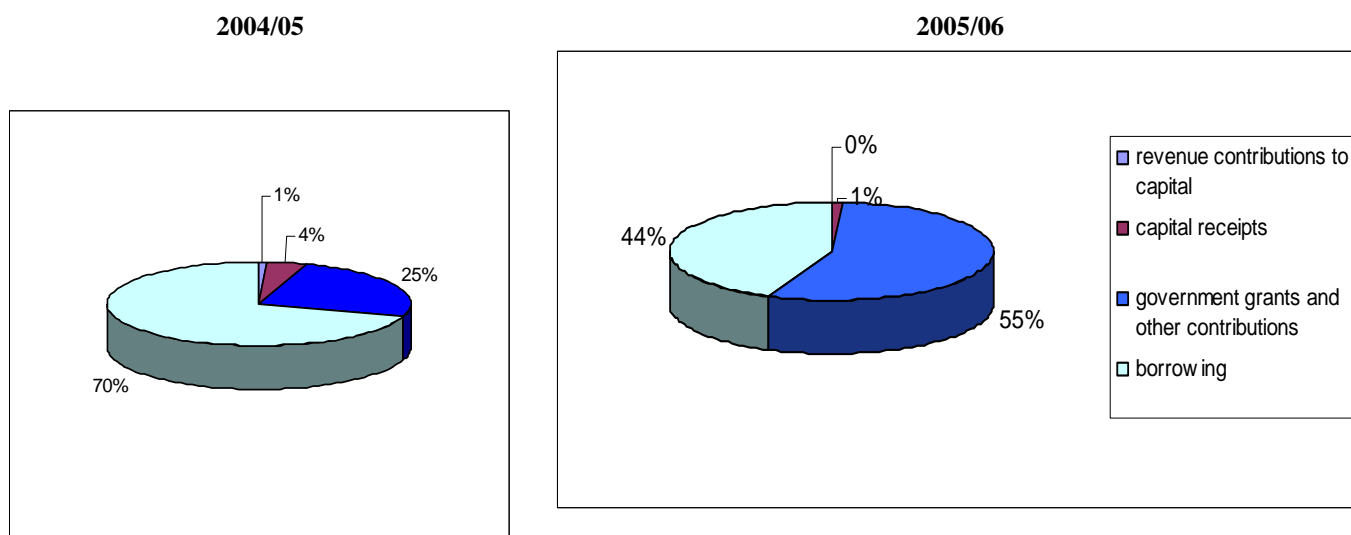
## Spending on assets and long-term borrowing

### Capital performance 2005/06

45. Following the introduction of the prudential code in April 2004 the Comhairle can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. To date, the Comhairle has made limited use of these freedoms with only £1.052 million of capital expenditure being budgeted to be funded through prudential borrowing in 2005/06.

46. Capital expenditure in 2005/06 totalled £26.4 million, an increase of £11 million from 2004/05. Capital investment in the last two years was funded as shown below.

*Sources of finance for capital expenditure 2005/2006*



47. Long term debt decreased slightly in 2005/06 (from £181.931 million at 31 March 2005 to £181.793 million at 31 March 2006) as the increase in capital expenditure during the year was funded from increased grants from the Scottish Executive. 94% of long and medium term loans at the year-end mature after more than 10 years. The Comhairle has managed its risk exposure as no debt is exposed to variable rate risk as at 31 March 2006.





48. There was some slippage against the 2005/06 capital programme of £29.183 million as a result of local contractors focusing on insurance repairs resulting from the storms in January 2005 for the first three months of the year.

## **Forward capital programme**

49. General services capital plans for 2006/07 and 2007/08 anticipate annual capital expenditure of £32.190 million and £17.962 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and borrowing totalling £26.205 million over the two years.
50. The Comhairle planned to transfer its entire housing stock to the Hebridean Housing Partnership on 1 April 2006. Due to delays in this transfer, the Comhairle approved an interim capital programme of £0.934 million in March 2006 for the period 1 April to 1 September 2006. As at the date of transfer, 12 September 2006, £0.907 of this programme had been spent.

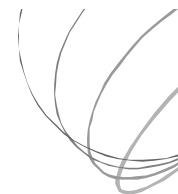
## **Significant trading operations**

51. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break even over a three year rolling period. The first three year period ended in 2005/06.
52. The Comhairle has five significant trading operations: refuse collection, building maintenance, highways, bus operations and fuel at fishery piers (since 2003/04). In the three years to 31 March 2006 all significant trading operations except the bus operation, with an accumulated deficit of £0.232 million, met the statutory target. All aspects of the bus operation have been reviewed as part of a recovery plan to enable the statutory objective to be met in 2006/07. The Comhairle has subsequently decided that the fuel at fishery piers operation should no longer be classed as a significant trading operation as it does not meet the agreed criteria.

## **Financial outlook**

### **Current budget**

53. The 2006/07 budget was based on a Band D council tax level of £999, after allowing for a contribution of £1.75 million from the general fund, a 4.5 % increase on the previous year. General allowances for pay and cost inflation pressures were built into the budget, together with the additional costs associated with the increased demand for mainland Social Work placements and additional annual pay costs of £1.7 million resulting from the future implementation of single status. A number of efficiencies and other savings were also built into the budget.



54. The first quarter monitoring report for 2006/07 shows a net overspend against budget at June 2006 of £0.681 million. All services except for Social Work (£0.375 million) and Corporate Services (£0.057 million) are within the carry forward tolerance of 1% of revenue budget set by the Comhairle. The Directors of Social Work and Corporate Services have been requested to report back to the next series of meetings on options to bring their budgets back into balance within this financial year.
55. The Comhairle has yet to set an indicative council tax level for 2007/08 as adopting the Scottish Executive's recommendation of a maximum increase of 2.5% from the previous year would result in a revenue budget deficit of £3.2 million to be funded from reserves. The Comhairle is taking a strategic approach to balancing the budget, including supporting COSLA in arguing for additional resources. While the Minister for Finance and Public Service Reform has indicated a willingness to consider any case made by local authorities for extra funding in that year, no firm commitment has been made.

## **Equal pay**

56. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.
57. In common with many other Scottish councils, Comhairle Nan Eilean Siar has sought to limit its exposure to the financial risk associated with equal pay claims by offering payments to specific groups of employees as part of a compensation package. Estimated costs of £3.7 million have been recognised in the 2005/06 financial statements for the total one-off cost of these payments.
58. The extent to which the actual costs vary from current estimates will depend on a number of factors including take up rates, any employees not covered by the calculations and the level of awards of any cases taken to tribunal. At October 2006, 99% of cleaning, catering and home care workers had accepted the compensation package offered by the Comhairle.
59. While these settlements have helped to reduce the financial risk faced by the Comhairle, there remain risks while existing pay and reward structures remain in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.



## Single status

60. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
61. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. To date only one council, South Lanarkshire, has implemented single status.
62. Comhairle Nan Eilean Siar has completed its evaluation of posts and is currently in discussions with trade unions over the pay model to be applied. The Comhairle has set aside £1.6 million in respect of single status within its 2006/07 revenue budget.
63. Until a local agreement is concluded the initial and continuing costs to the Comhairle cannot be reliably estimated. This represents a significant financial risk to the Comhairle. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. The Comhairle is currently considering pay models of 8% and 10% of current pay costs. In securing a local agreement the Comhairle needs to maximise the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

## Efficient government

64. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.
65. The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive (SE) has not notified councils of the efficiency savings they should achieve each year it anticipated that Comhairle Nan Eilean Siar's contribution to the target will be £1.192 million over three years, equating to £0.381 million for 2005/06.



66. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided. In order to claim an efficiency councils need to demonstrate that service outcomes have been maintained or improved.
67. Based on information supplied by councils across Scotland, it is apparent that:
- few councils have a system in place to properly monitor, measure and report efficiency gains and that effort is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency;
  - the level of projected efficiencies varies significantly between councils;
  - the majority of planned efficiencies relate to areas and projects other than the SE's five key work streams of procurement, asset management, absence management, streamlining bureaucracy and shared support services;
  - plans for projects to create time releasing efficiencies are not well developed and little in the way of efficiencies is expected to be generated by 2007/08 through shared support services. In both cases this is indicative of the time required to develop plans for fundamental service redesign.
68. The Comhairle has identified £0.347 million of efficiency gains for 2005/06, over and above the efficiencies already planned to balance the budget. These savings were implemented midway through 2005/06 and are not sufficient to meet the level anticipated by the SE by 31 March 2006. This will put pressure on future years.
69. Three long term projects have been identified:
- the introduction of an e-procurement system which is expected to generate efficiency gains of around £500,000 in 2007/08;
  - reduced consumption of energy and water resources through spend to save measures expected to generate further efficiencies of £150,000 during 2007/08;
  - the introduction of a customer relationship management system which is expected to generate time-releasing savings but these have yet to be quantified.



70. The Comhairle needs to develop a comprehensive performance management information system capable of confirming no loss of service quality, and tracking savings to ensure deployment to frontline services. Without clear baseline information covering cost and quality of service, the Comhairle will find it difficult to demonstrate that claimed efficiencies have not impacted adversely on service provision. In common with other councils, work is still required to ensure that guidance is issued to staff to clarify what constitutes efficiency and how it should be measured, monitored and reported.
71. The Improvement Service has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for councils to assist in their forward planning and to aid them in demonstrating their efficiency gains for the financial year 2006/07. The Auditor General intends to publish a report around the end of 2006 to summarise the position across the public sector on the efficient government initiative. The Comhairle should consider the findings included in this report when reviewing their own position.

## **Pension liabilities**

72. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.
73. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
74. The Comhairle's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Highland Council Pension Fund by £24.548 million, increasing from £20.972 million in the previous year. A full actuarial valuation of the Highland Council Pension Fund was reported in early 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 105% at 31 March 2002 to 92% at 31 March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. This shows that budgeted contributions are expected to rise from 270% of employee contributions to 290% by 2008/09.



# Governance

## Introduction

75. In this section we comment on key aspects of the Comhairle's governance arrangements during 2005/06. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2005/06

76. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. As highlighted earlier in this report, the best value audit has concluded that improvements could be made in the Comhairle's political and corporate governance arrangements and that the Chief Executive is undertaking a fundamental review of structures and processes.

77. At a corporate level, the Comhairle has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff and a whistle blowing policy.

78. The Audit and Scrutiny Committee adheres to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland*. The Comhairle recognises that the Committee's role needs to be strengthened and its profile raised, with its work structured and supported by the Chief Executive. The Committee is not sufficiently pro-active and receives very little information about how services are performing.

79. The Comhairle has developed a risk management policy framework and guidance is in place but, in common with other councils, more needs to be done to embed a culture of risk management throughout the organisation. A Strategic Risk Management Group is leading a programme to develop the Comhairle's approach to risk management including business continuity planning, risk monitoring and the identification of training needs.

80. Internal audit plays a key role in the Comhairle's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the Comhairle's internal audit arrangements and concluded that the section is well managed and works to a satisfactory standard.



81. In previous years we have reported concerns about the resources available to internal audit and the impact that this has on the delivery of their annual plan. In 2005/06 internal audit continued to experience resourcing issues and, as a result, we limited the number of areas on which we planned to place reliance on their work. The Director of Finance has recently restructured the section and it is hoped that these changes will provide greater stability.

## **Systems of internal control**

82. A Statement on the System of Internal Financial Control is included within the annual financial statements. The Director of Finance concluded that the Comhairle had an appropriate system of internal financial control in place in 2005/06 but drew attention to a number of specific matters, including control weaknesses within the Comhairle's payroll system. In his annual report for 2005/06 the principal internal auditor provided his opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the Comhairle appear to be adequate.

## **Follow up of prior year recommendations**

83. Our 2005/06 audit included follow-up of progress made in implementing previous years' audit recommendations made to address weaknesses within the payroll system and the arrangements for information security. Our review identified that in both cases progress had been slow.
84. Of the eight recommendations included in our March 2005 report on application controls operating within the new payroll system, only two had been fully implemented by November 2005. Further weaknesses in the payroll system were identified in January 2006 when an inputting error resulted in an overpayment to a member of staff. Internal audit investigated the circumstances and identified that fundamental controls, including checks that input had been processed correctly, were not operating as expected. In addition, controls designed to 'flag' unusual payment amounts had not been activated. Internal audit made three recommendations to improve controls, two of which have been fully implemented. As a result of these weaknesses, we had to undertake additional work in order to gain sufficient assurance to enable us to form an opinion on the annual financial statements.
85. Of the eight recommendations included in our March 2004 report on the Comhairle's arrangements for information security, four were still only partially implemented and one had yet to be actioned at September 2006. In particular, whilst the Comhairle had agreed in January 2006 to undertake a risk assessment of IT systems, planning to progress this work has only just started. This slow progress is particularly concerning given the damaging incidents associated with information security breaches experienced by the Comhairle during the year. These include sensitive data being placed in error on the Comhairle's intranet and the inappropriate use of the internet by staff.



## Main financial systems

86. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the Comhairle's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Creditors
- Treasury management
- Housing benefits
- Budgetary control

87. We concluded that some other systems, including payroll, were unlikely to provide us with the necessary level of audit assurance and we have made recommendations to management to improve internal controls in these areas.

## Tendering

88. In the last three months of the year, the Housing Service suspended contract standing orders in an attempt to complete the housing capital programme by 31 March 2006. As a result, tendering procedures were not followed and written quotations were not obtained prior to the award of contracts totalling £0.786 million.

89. This action was taken without the knowledge or approval of the Chief Executive to whom the Comhairle had delegated authority to accelerate projects which could be completed prior to the end of the year. The Chief Executive has acknowledged that these circumstances make it impossible for him to demonstrate best value. The Comhairle homologated the decision to suspend contract standing orders in March 2006.

## Prevention and detection of fraud and irregularities

90. At the corporate level, the Comhairle has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and corruption policy and response plan.

91. Under the National Fraud Initiative (NFI), councils compare information about benefit applicants, students, public sector employees and pensioners with other public bodies to find fraud and errors. The findings of the 2004/05 exercise were published in May 2006, highlighting that across Scotland £15.1 million of fraud, overpayments and savings were found, including:

- 270 cases where pensions were being paid to people who had died;
- 564 cases of public sector employees and pensioners either fraudulently claiming housing benefits or receiving them in error;
- 215 cases of housing benefit overpayments to students;





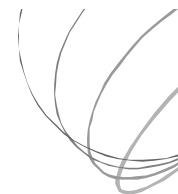
- 53 cases referred to the Procurator Fiscal and 32 employees who have been dismissed, disciplined or who resigned as a result of the initiative.
92. The Comhairle has made slow progress with this initiative and had still to complete investigations on all identified anomalies more than a year after receipt of the data.
93. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The Comhairle needs to ensure that it allocates sufficient resources to the NFI in 2006/07 to enable it to complete all investigations timeously thereby assisting in the detection of fraud.

#### **Action point 4**

94. Each year Audit Scotland gathers information on actual cases of fraud identified by councils. In 2005/06 the Comhairle identified one case of non-benefit fraud totalling £8,743. This amount is being recovered by the Comhairle.

## **Governance outlook**

95. The Comhairle needs to develop its risk management and scrutiny arrangements and increase the level of resource applied to the investigation of potential frauds to ensure that the public purse is properly protected from fraud. There is also evidence that the Comhairle needs to improve internal controls with its payroll system, improve information security and be more responsive in actioning recommendations made to improve internal control.
96. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, have potential implications for the political make-up and governance of the Comhairle. The Scottish Executive's intention is also to remove barriers to encourage the widest possible range of people to serve as councillors, with changed remuneration arrangements for members. These reforms will require significant input from the Comhairle to ensure its governance arrangements are fit for purpose, including committee structures, role/remits of members and arrangements for training new members.



# Financial statements

## Introduction

97. In this section we summarise key outcomes from our audit of the Comhairle's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
98. We audit the financial statements and give an opinion on:
- whether they present fairly of the financial position of the Comhairle and its expenditure and income for the year; and
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
99. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Director of Finance to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Comhairle.

## Overall conclusion

100. We have given a **qualified** opinion on the financial statements of Comhairle Nan Eilean Siar for 2005/06 and also drawn attention to a failure to comply with a statutory requirement.
101. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2005 SORP requires that deferred charges are fully charged to revenue in the year they are incurred if the local authority does not control the economic benefits arising from the expenditure. Note 5 to the consolidated balance sheet highlights that other grants of £1.859 million have been charged to revenue during 2005/06. The impact on the general fund and expenditure to be met from council tax, however, has been neutralised through a corresponding credit from the capital financing account to reflect the fact that the expenditure has been funded through borrowing. In our opinion, this treatment is not in accordance with proper accounting practice and results in an understatement in the deficit for the year, and an overstatement of the general fund balance, of £1.859 million. This resulted in a **disagreement on accounting treatment qualification** to the audit opinion.



102. Local authorities are permitted to borrow for 'expenses of a capital nature' by the Local Government (Scotland) Act 1975. Up until April 2004, the 'section 94' system of controlling capital expenditure resulted in a definition of expenditure of a capital nature for funding purposes which was wider than the definition under proper accounting practice. Local authorities were given consent for items of expenditure, such as capital grants to third parties, which the SORP required to be treated as revenue expenditure. This meant that items of revenue expenditure could be funded from borrowing.
103. The replacement of section 94 consent by prudential borrowing called into question the option to continue to borrow for items such as capital grants. This issue was specifically considered in England and regulations were passed to allow authorities to continue to borrow for items of expenditure which do not meet the definition of capital in accordance with proper accounting practice. No such regulations have been passed in Scotland and, in their absence, we can only assume the intention is that the definition of capital expenditure for borrowing purposes is the same as that outlined in the SORP. The Scottish Executive has since supported this interpretation. Ultimately, however, only the courts can decide the intention underlying legislation.
104. Given the importance of such capital grants to the community, the Comhairle has written to the Minister for Finance and Public Services asking him to exercise his powers in terms of the Local Government Scotland Act 2003 to enable the Comhairle to continue to treat this expenditure as capital.
105. The 2005 SORP also requires that assets included in the consolidated balance sheet at current cost are formally revalued by a qualified valuer at intervals of not more than five years. No revaluation of council dwellings has been undertaken since 1 April 2000. We were unable, therefore, to determine the possible adjustments to the financial statements that would have been required had the Comhairle's assets been revalued in accordance with the requirements of the SORP. This resulted in a **limitation in scope qualification** to the audit opinion.
106. We have been informed that the revaluation did not take place as it was not considered to represent a good use of resources as the housing stock was due to be transferred to the Hebridean Housing Partnership on 1 April 2006. In the event, the transfer was delayed but did subsequently take place on 12 September.
107. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted earlier in this report, the bus operation trading organisation made an aggregate loss of £0.232 million in the three years to 31 March 2006, with the result that the Comhairle has failed to meet this statutory requirement. This resulted in a **failure to comply with a statutory requirement** reference in the audit opinion.



## Accounting practice

108. The Comhairle's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Comhairle and publication. The financial statements are an essential means by which the Comhairle accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
109. A significant number of presentational adjustments were required to the unaudited accounts provided for public inspection to improve compliance with the SORP. In addition, two accounting adjustments were made to the figures included in the unaudited accounts with a net effect of reducing the deficit for the year by £0.320 million. Details of material adjustments and other significant accounting issues arising in the course of our audit are summarised below.

### Carry forward of budget underspends

110. Audit testing identified that some services had carried forward budget underspends within creditors rather than as earmarked balances within the general fund. At our request, Comhairle officers reviewed their creditors' schedules and identified a total of £1.24 million of similar balances. Following discussion, it was agreed that an adjustment of £0.402 million should be made to the unaudited accounts. We have been informed that the remaining balance comprises of a mix prepaid grants and under-spends and was not investigated further on the grounds of materiality. The Comhairle has agreed to remind all officers involved in the preparation of the 2006/07 financial statements that budget underspends should not be carried forward within creditors.

**Action point 5**

### Reconciliations with Assessor's systems

111. Neither the council tax nor non-domestic rates systems have been regularly and timeously reconciled during the year with the information held within the Assessor's systems. As there is no electronic interface between the Comhairle's and Assessor's systems, all amendments to the council tax and non-domestic rates systems have to be entered manually. It is essential, therefore, that these systems are regularly reconciled with the Assessor's systems to ensure that any inputting errors are timeously identified and corrected.

**Action point 6**



## Depreciation on land

112. The Comhairle has not valued land separately from buildings, with the result that land has been depreciated contrary to the requirements of the SORP. Although the overstatement of depreciation is unlikely to have a material impact on the financial statements, the Comhairle should ensure that land is valued separately at the next formal valuation.

**Action point 7**

## Group accounts

113. Modified arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The group accounts are primary accounting statements of the Comhairle.

114. Although the unaudited accounts provided for public inspection included group accounts, these did not comply with the requirements of the SORP. In particular, none of the adjustments to ensure that local authority group accounts are UK GAAP compliant had been processed and the notes did not disclose the information required by the SORP. The Comhairle has included revised group accounts in the audited financial statements but further work is required next year to ensure that they fully comply with accounting requirements, including early liaison with Highland Council which provides some of the information.

**Action point 8**

## Legality

115. Each year we request written confirmation from the Director of Finance that the Comhairle's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and Management Team, the financial transactions of the Comhairle were in accordance with the relevant legislation and regulations governing its activities.

116. There has been continuing press coverage surrounding councils which have charged for the preparation of food which may contravene the terms of the Community Care and Health (Scotland) Act 2002 in relation to free personal care. The Comhairle has previously charged for food preparation but, following consideration of the legal and policy position, decided to cease charging for these services and repaid all sums already charged during 2005/06.



117. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the Comhairle has recognised a liability in the financial statements in relation to the potential contravention of this Act. Until the single status agreement is implemented, however, there remains the possibility that the Comhairle could be judged to have contravened the Act.
118. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Financial reporting outlook

119. A number of changes have been made to the 2006 SORP, including:

- replacement of the consolidated revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- similar changes to the housing revenue account and group accounts.

120. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Comhairle should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial activity is fully transparent.

### **Action point 9**

## Change of external auditor

121. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.
122. This is the final year of our current appointment to the audit of Comhairle Nan Eilean Siar. From 2006/07 Audit Scotland will remain as the Comhairle's appointed auditor and the new engagement lead will be Peter Tait. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.



# Final Remarks

123. The members of Comhairle Nan Eilean Siar are invited to note this report. We would be pleased to provide any additional information that members may require.

124. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members.

125. The co-operation and assistance given to us by Comhairle Nan Eilean Siar members and staff over the five years of our audit appointment is gratefully acknowledged.

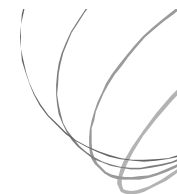


# Appendix A: Action Plan

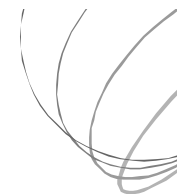
## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	11	<p><b>Statutory performance indicators</b></p> <p>Although the Comhairle relies heavily on SPLs for its performance management information there are problems over reliability.</p> <p><b>Risk: performance information is inaccurate.</b></p>	As part of the 2006/07 year end the Chief Executive will reinforce the importance of complying with the guidance and timetable for completion of SPLs.	Chief Executive	28 Feb 2007
2	22	<p><b>Best value</b></p> <p>The development and implementation of a BV improvement plan provides an opportunity to address the fundamentals of performance management. Implementation of the plan will require to be monitored on an ongoing basis to ensure a sufficient pace of change.</p> <p><b>Risk: the improvement agenda loses momentum and the Comhairle fails to demonstrate continuous improvement.</b></p>	The Comhairle has agreed that the Audit and Scrutiny Committee will monitor the implementation of the Best Value Action Plan with regular reports.	Andrew MacKenzie	In accordance with Best Value Action Plan
3	28	<p><b>Partnership working</b></p> <p>In general, the relationship between the Comhairle and the Health Board has been poor. The changing management arrangements in the Health Board provide the Comhairle with an opportunity for a fresh start to improve relationships.</p> <p><b>Risk: partnership working is insufficient to drive forward real improvements for the community.</b></p>	<p>The Comhairle has agreed the terms of a partnership agreement and the Chief Executives meet on a regular basis.</p> <p>There are also actions in the Best Value Action Plan that will be implemented.</p>	Chief Executive	Ongoing





Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
4	93	<p><b>National Fraud Initiative</b></p> <p>The Comhairle has made slow progress with the NFI and needs to ensure sufficient resources are allocated to it in 2006/07.</p> <p><b>Risk: the public purse is not properly protected from fraud.</b></p>	An action plan for the completion of the work has been drawn up and will be implemented.	Martin Jones	31 March 2007
5	110	<p><b>Budget underspends</b></p> <p>Audit testing identified that some services had carried forward budget underspends within creditors rather than as earmarked balances within the general fund.</p> <p><b>Risk: the Comhairle's financial position is misstated.</b></p>	Revised guidance will be issued for year end debtors and creditors.	David Rattray	28 Feb 2007
6	111	<p><b>Reconciliations</b></p> <p>Neither the council tax nor non-domestic rates systems have been regularly and timeously reconciled with the information held within the Assessor's systems.</p> <p><b>Risk: inputting errors are not timeously detected and the Comhairle's financial position is misstated.</b></p>	Reconciliations will be carried out quarterly.	Martin Jones	30 Dec 2006 & quarterly thereafter
7	112	<p><b>Depreciation</b></p> <p>The Comhairle has not valued land separately from buildings, with the result that land has been depreciated contrary to the requirements of the SORP.</p> <p><b>Risk: depreciation is overstated and the value of the Comhairle's assets understated.</b></p>	<p>The assessor is now valuing assets on a rolling basis.</p> <p>This includes revaluing land separately. However, it will be four years before all Comhairle properties are re-valued.</p>	David Rattray	Completed



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
8	114	<b>Group accounts</b> Although the unaudited accounts included group accounts, these did not comply with the requirements of the SORP. Revisions were made to the audited accounts but further improvements are required in 2006/07 to fully comply with the SORP. <b><i>Risk: the financial statements may not comply with accounting requirements.</i></b>	Request will be sent to Highland Council to get figures for Joint Committees earlier and revision to year end procedures.	David Rattray	28 Feb 2007
9	120	<b>Financial reporting</b> Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements. <b><i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements.</i></b> <b><i>Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></b>	Review year end procedures in light of changes to SORP.	David Rattray	28 Feb 2007