



Orkney Islands Council

Annual Report on the Audit to the Council and Controller of Audit 2009/10

September 2010



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Executive Summary

Financial statements

We are pleased to report that our independent auditors' report contains an unqualified audit opinion on the financial statements for the year ended 31 March 2010. We also certify that the accounts have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Use of resources

The council achieved a general fund surplus of £0.957m in 2009/10. The general fund balance brought forward of £18.752m at 1 April 2009 increased to a cumulative net surplus balance of £19.709m at 31 March 2010. Of this balance, £11.751m has been earmarked for specific purposes, which leaves an unallocated general fund balance of £7.958m which is just below the council's policy to maintain a minimum general fund balance of £8m to meet unforeseen contingencies. This positive situation has arisen from the council achieving a surplus on its budget without the need to draw upon the use of the general fund balance.

The council continues to report significant levels of slippage on its capital programme. The council has agreed that £7.961m of its 2009/10 capital programme should be carried forward to future years. A further £9.110m is to be carried forward on the council non general fund capital programme. The revised capital budget for 2009/10 was £27.8m of which £10.5m was spent. In an attempt to better manage the capital programme and reduce the level of slippage, budgets for forthcoming years have been re-profiled.

The development of the council's workforce planning arrangements is now a key factor in how the council responds to the current economic climate. The corporate management team is conscious of the need to improve its people management arrangements and the council is continuing to make progress in this area. More robust and consistent arrangements need to be in place in order to support efficient and effective use of the council's main resource – its staff. Effective people management is particularly important at this time to support the council and its workforce through the challenging times predicted for the public sector over the next few years.

Considerable time and costs have been invested by the council into its joint working in Orkney programme. This programme includes the schools investment programme and shared support services. During the course of the schools investment programme bidding process, the Scottish Government announced its intention to change its approach to funding through capital grant. As a result this programme will no longer require a wholly owned community interest company for which the council invested significant time and costs exploring. The council joint shared support services initiative with NHS Orkney is currently being re-assessed by the respective management teams following a report by CIPFA consultancy into this initiative.

Performance

The council has worked on developing its performance management arrangements. Regular performance reports are presented to committees.

The most recent SOA performance reports indicate that the council has improved performance in 60% of its indicators. The community planning partnership however has failed to meet 52% of its targets. If these targets are considered realistic, as lead partner, the council needs to engage with the partnership to understand and address underperformance.

In order to meet the requirements of the 2008 SPI direction, the council has identified 84 non-specified indicators. The range of indicators identified by the council ensures coverage of SPI 1 and SPI 2. A selection of indicators have however been identified which would not produce reliable information as the indicators were not supported by robust data dictionaries and data gathering system.

Governance

We have reviewed the Council's corporate governance arrangements in relation to its systems of internal financial control and standards of conduct including the prevention and detection of fraud and corruption. Our review confirmed that the Council's governance arrangements are, in general, satisfactory.

In July 2010, the chief executive was seconded to Shetland Islands Council for a period of 27-33 months. The director of finance & housing has been appointed as chief executive and the assistant director of finance as interim director of finance & housing.

From 1 April 2010, Orkney Health and Care became a substantive service of the council and NHS Orkney. Work is ongoing to implement robust governance arrangements. The Orkney Health and Care sub committee has been formally recognised within the council's scheme of delegation and reports to the Policy and Resources committee. When this sub committee meets with the NHS committee, the two committees form the Orkney Health and Care board. The Council and NHS Orkney have undertaken a recruitment process to recruit a Joint Director of Orkney Health and Care. Whilst a suitable candidate was not found, the role is being filled on an interim basis. The role of chief social work officer at the Council is being filled on an interim basis. A formal strategic plan has yet to be developed along with formal protocols between the Council and NHS Orkney.

Audit Scotland published its report 'The National Fraud Initiative, making an impact' in May 2010. Orkney Islands Council was named in this report as one of seven councils where its participation in NFI needs to improve. The council is currently preparing to submit its data for the 2010/11 NFI exercise. This is due on the 4th October 2010. We understand the lead officer is committed to achieving this deadline.

Looking forward

Orkney Islands Council faces significant reductions in funding over the next three years. The position will become clearer when the outcome of the spending review is known in October 2010. In anticipation of the savings that will be required the council has started to set out options for savings.

Work streams have been set up to consider in detail critical aspects of delivering savings. Whilst no decisions have been made in relation to workforce reductions, personnel are in the process of working up options to reduce staffing costs through enhanced voluntary redundancy policies and flexible working arrangements.

The council is formally engaging with the community through a range of media, including roadshows and discussions with community planning partners and community councils over the budget situation and savings possibilities.

The council has taken the decision to integrate the services currently provided by its subsidiary companies, Orkney Ferries and Orkney Towage into the council. The integration of ferry services is proposed to take place in April 2011.

The ferries service is also one of the largest potential areas for future capital investment. The age of the ferries fleet is such that future investment will be required over the next few years. The council has submitted STAG 2 business cases to the Scottish Government but no confirmation of whether capital funding for new ferry purchases has been received. The provision of ferry services to the north and south isles of Orkney will also be covered by the Scottish Government ferries review. Delays in obtaining funding will however become an increasing risk to the continuity of lifeline ferry service provision to the islands and the council will need to consider other alternative approaches to funding priority services.

Conclusion

This report concludes our audit of Orkney Islands Council for 2009/10. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Chief Executive and members of the Council's management team. We would like to thank all members of Orkney Islands Council's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
September 2010

Introduction

1. This report summarises the findings from our 2009/10 audit of Orkney Islands Council. The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Monitoring and Audit Committee at the outset of our audit.
2. The main elements of our audit work in 2009/10 have been:
 - Audit of the financial statements, including a review of the Statement of Internal Financial Control
 - Review of corporate governance arrangements
 - Review of internal financial controls and financial systems
 - Review of Orkney Health and Care governance arrangements
 - Review of workforce management arrangements
3. The key issues arising from our work during the year are summarised in this annual report.
4. Our findings are drawn together within four sections:
 - **Financial Statements:** summarises the key outcomes from our 2009/10 audit of Orkney Islands Council's financial statements
 - **Use of Resources:** covers how Orkney Islands Council is managing its finances, workforce and assets
 - **Performance:** covers the Council's performance management arrangements and statutory performance indicators
 - **Governance:** covers a summary of Orkney Islands Council's corporate governance arrangements
5. In their response to the Crerar report in June 2008, Scottish Ministers asked the Accounts Commission to put in place arrangements to reduce the burden of scrutiny for local authorities by establishing a single audit framework. A key aspect of this agenda is to better co-ordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies.
6. During 2009/10 all scrutiny bodies that engage with council have worked together to establish a shared assessment of the risks facing Orkney Islands Council and develop a range of proportionate approaches in response to the risk assessment. The overall scrutiny risk assessment is set out in an assurance and improvement plan (AIP). Orkney Islands Council has been assessed as a low risk council. Reflecting this low risk, there are no plans for any major scrutiny activity to be carried out over the next two years (commencing 2010/11). A series of tailored exercises, looking at specific issues, are planned.

7. This report uses, where appropriate, the headings of the corporate assessment framework, which we and other scrutiny bodies used as the structure for the shared risk assessment and assurance and improvement plan (AIP). Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
8. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council include:
 - Improving public sector efficiency
 - Overview of local government in Scotland 2009
 - Protecting and improving Scotland's environment
 - Scotland's public finances – preparing for the future
 - Making an impact – overview of best value audits 2004-09
9. All of these reports have been sent to the council for consideration and we do not consider these in this report. They are available on Audit Scotland's website www.audit-scotland.gov.uk.
10. The report is addressed to Orkney Islands Council and the Controller of Audit and will be published on Audit Scotland's website.

Financial Statements

Introduction

11. Financial statements are a key way by which Orkney Islands Council accounts for the stewardship of the resources made available to it. In this section we summarise the key outcomes from our 2009/10 audit of Orkney Islands Council's financial statements.

Our Responsibilities

12. We audit the financial statements and give an opinion on:
 - Whether they give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (the SORP), of the financial position of the Council and its income and expenditure for the year then ended
 - Whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973
13. 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 & housing to obtain assurances on systems of internal control. We assess whether disclosures in the statement are consistent with our knowledge of Orkney Islands Council. (paragraph 53)

Independence

14. International Standard on Auditing 260 – Communication of Audit Matters with those Charged with Governance – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
15. We provided no additional services to Orkney Islands Council during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Legality

16. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially effect the financial statements. Our audit procedures included the following:
 - Reviewing minutes of relevant meetings
 - Enquiring of senior management and the organisation's solicitors the position in relation to claims and assessments
 - Performing detailed testing of transactions and balances

17. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Responsibility for the Statement of Accounts

18. It is the responsibility of the council and Director of Finance & Housing to prepare the financial statements in accordance with the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP). This means:

- Acting within the law and ensuring the regularity of transactions
- Maintaining proper accounting records
- Preparing financial statements which present fairly the financial position of the council and its expenditure and income for the period ended 31 March 2010

Overall conclusion

19. Our audit report is included on page 72 and 73 of the annual accounts and is addressed to members of Orkney Islands Council and the Accounts Commission for Scotland. The report was issued on 29 September 2010 and is unqualified. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
20. Orkney Islands Council is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We can confirm that Orkney Islands Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.
21. The Local Authority Accounts (Scotland) Regulations 1985 also require accounts to be made available for public inspection within 28 days of being requested by the Controller of Audit. At least 14 days notice of the commencement of the inspection period is required. Objections should be made, in writing, within 21 days from the commencement of the period. Orkney Islands Council published its public notice in 'The Orcadian' and 'Orkney Today' on the 8 July 2010. The accounts were made available for public inspection from 16 July. The public notice explained that objections should be made in writing by 7 August 2010. As a result, the council did not allow at least 14 days notice of the commencement of the inspection period. Furthermore, the length of time by which objections could be made exceeded the 21 day period.
- Action Plan Point 1**
22. The quality of the financial statements prepared by the council is of a satisfactory standard. We received supporting working papers of a good standard and in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly and our thanks go to staff at Orkney Islands Council for their assistance with our work.

Format of the Accounts

23. The financial statements should be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP). The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which give a true and fair view of the financial position and transactions of a local authority and its group financial statements where there are material interests in subsidiaries, associates or joint ventures.
24. In Scotland, the SORP constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003, under the statutory framework established by the Local Authority Accounts (Scotland) Regulations 1985; and, for the audit of those accounts, by section 99 of the Local Government (Scotland) Act 1973 and section 12 of the Local Government in Scotland Act 2003.
25. As part of our 2009/10 audit we considered the arrangements Orkney Islands Council had in place to ensure compliance with the requirements of the SORP. Overall we concluded that the council has complied with the requirements of the SORP.

Audit Adjustments

26. We identified no major errors or weaknesses during our audit. Appendix 2 outlines the adjustments made over the course of our audit to Orkney Islands Council's financial statements. All adjustments were agreed with the interim Director of Finance & Housing. The net effect on the financial statements is as follows:

Table 1: Impact of Audit Adjustments on Financial Position

	Council £'000	Group Accounts £'000
(Surplus)/Deficit for the Year	12,082	13,644
Net effect of adjustments made during the audit	4,485	5,644
Revised (Surplus)/Deficit for the Year	16,567	19,287

27. We have also identified a number of potential adjustments which are not considered material to the financial statements, either individually or in aggregate. These potential adjustments have been reported to the interim Director of Finance & Housing and are included as an appendix to the letter of representation.

Group Accounts

28. The SORP requires authorities to consider all their interests in external organisations, including limited companies and other statutory organisations, to determine if the organisations should be consolidated into the authority's financial statements.

29. Orkney Islands Council has reported its interest in two subsidiaries and three associates into group accounts. All bodies within the group received unqualified audit opinions from their external auditors.
30. We have audited the group accounts prepared by the council and the judgements made by the council regarding those entities included or excluded from the group accounts. The audit report covers our audit opinion on the group accounts and is unqualified.
31. The overall effect of inclusion of all the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £29.841m mainly because of pension liabilities. All group bodies' accounts however have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions.
32. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. These boards (Northern Joint Police Board and Highlands and Islands Fire Board) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. In total these deficits amounted to £532.473m, with the council's share being £30.380m.

Charitable Trusts

33. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. For each trust fund, the Regulations require a full set of financial statements to be prepared and submitted to the Office of the Scottish Charity Regulator (OSCR). OSCR however has deferred this requirement until 2010/11. In 2009/10, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. As at 31 March 2010, the council administered 40 trust funds, of which 15 are registered charities.
34. In February 2009, a paper was presented to the council's Policy and Resources Committee which proposed, subject to OSCR approval, a Deed of Trust (The Orkney General Charitable Trust) be created which would re-organise the council's charities and bequests into one single charity. OSCR subsequently rejected the Trust Deed on the basis that it would not pass its 'charity test'. One concern raised by OSCR was over the naming of the trustees of the charity. OSCR expressed a preference that independent trustees were also appointed.
35. The council has subsequently revised the Deed of Trust so that the trustees are named officers of the council rather than a position within the council. The revised Deed retains the trustee membership within the council. OSCR has yet to confirm whether this revision satisfies the 'charity test'.
36. During 2009/10 the council sold a number of Trust assets, transferring these into cash for distribution. The council looked to disburse balances to enable the individual trust funds to be

used for the purpose that the funds were bequeathed. This removes the administrative burden of managing these funds. During 2009/10 accumulated charitable trust fund balances reduced by £25,000.

Common good

37. Common Good Funds are funds held for the benefit of residents of the former Burgh's of Stromness and Kirkwall. The Funds were inherited by the council following the reorganisation of local government in 1975 and authorities are required to administer these funds under Section 15 of the Local Government (Scotland) Act 1994.
38. In December 2007, the Local Authority Scotland Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on accounting for common good. The guidance recommended that, by 31 March 2009, all Scottish local authorities who administer common good funds should have a separate common good asset register. This register should include both fixed and moveable assets.
39. In our 2008/09 annual report we commented that whilst the council had made progress in identifying all common good assets, considerable work was still outstanding in order for the council to compile a comprehensive common good asset register. The council's legal service has undertaken a detailed analysis of title deeds for all common good properties held by the council. The review of common good titles did not identify any further properties that should be included within the common good fund.
40. The council is in the process of undertaking a review of council title deeds. We noted that this review however is carried out on an ad hoc basis and would recommend that the council establish a comprehensive plan to ensure that a full review of council title deeds is undertaken in a timely manner.

Action plan point 2

41. The completion of this review is likely to impact in the council's asset base/register. It will not be possible to confirm with full certainty that the common good asset register is complete until this review has been completed.
42. Common good assets include moveable assets such as paintings and other pieces of artworks. Whilst the council has identified badges of office and robes within the common good account, a detailed evaluation of moveable assets has yet to be undertaken to ensure that all moveable common good assets are recorded in the asset register.

Action plan point 3

Merchant Navy Officers Pension Fund – section 75 debt

43. In April 2008 the council's participation in the Merchant Navy Officers Pension Scheme (MNOFF) ended when the final council employee, who was a participant in the scheme, retired.

Under the scheme regulations, the council is liable for the cost of exiting the scheme when it was under a deficit position, this is known as Section 75 debt.

44. The MNOFP actuary has calculated the council's Section 75 debt as being £2,802,310. The council has recognised this as a provision within the annual accounts.
45. The council has subsequently employed an officer who is an existing member of the scheme however the council was unable to avoid the Section 75 debt falling due on the previous employees, as they had not notified MNOFP within the required timescales. On retirement of the existing employee and if the scheme remains in a deficit position the council will be liable for a further Section 75 debt.
46. With the proposed amalgamation of a number of organisations into marine services it is likely that the council will take on the potential future Section 75 debts of Orkney Ferries Limited. These are currently estimated at £6m for Orkney Towage and £7m for Orkney Ferries. We are aware that the council is currently exploring options surrounding membership of the scheme to try to minimise the financial impact on the council.

Financial guarantees

47. Orkney Towage Company Limited also has employees who participate in the MNOFP. Following the previous actuarial valuation of the scheme in 2006 the council agreed to act as a financial guarantor for Orkney Towage Company Limited's shortfall in the scheme. This was to allow the organisation to repay the shortfall over a number of years rather than through a large one-off payment.
48. In 2009 a further actuarial valuation was undertaken by MNOFP actuaries who have quantified the Orkney Towage Company Limited's shortfall as £807,000. Orkney Towage Company Limited has agreed to pay the liability in full on 30 September 2010 and therefore the council has concluded that no element of the deficit should be reflected within the council's financial statements. An adjustment has however been made to the group accounts.

Significant Trading Operations

49. Section 10 of the Local Government in Scotland Act 2003 requires local authorities to maintain and disclose trading accounts for significant trading operations (STOs). Each STO is required to breakeven over a rolling three year period. Under the terms of the Act the identification of significant trading operations is the responsibility of individual authorities. The council applies a number of tests to determine the trading status of each activity and its level of significance.
50. Since 2006/07 the council has not reported any STOs in its financial statements. This has been based on an internal review which was carried out in February 2009. Of the sixteen trading operations identified, the council concluded that they do not have any significant trading operations. The assessment also concluded that both waste disposal and quarries are provided

for on the basis of recharge of cost and therefore should not be classified as trading operations. We confirmed during our audit that Orkney Islands Council's assessment is reasonable.

Internal Audit

51. Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. As required by the Code of Audit Practice, we have established appropriate working arrangements with the council's internal audit function.
52. We have reviewed the council's internal audit arrangements to ensure that the work of internal audit is of sufficient quality and volume and complies with best practice. In carrying out our review we have assessed internal audit against the standards within the Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code). Our review concluded that the council maintains an effective internal audit function and is fully compliant across many of the Code's requirements. We were able to place reliance on their work, in 2009/10, in the following areas:
- Members Expenses
 - Officers Travel and Subsistence
 - Payroll
 - Pension Contributions and Superannuation Fund
 - Procurement
 - HB COUNT
 - Statutory Performance Indicators

Statement of Internal Financial Control

53. Orkney Islands Council has published a group statement on the system of internal financial control within the 2009/10 statement of accounts. The statement provides an overview of the key elements of the council and its group governance arrangements and systems of internal financial control.
54. The council's review of the effectiveness of the governance and internal financial control procedures is informed by the views of the Chief Internal Auditor, the Assistant Directors of Finance and managers within the group entity. The results of this work allow the council to conclude that the system of internal financial control is largely effective. We did however note that the council does not seek assurance statements from Service Directors.
- Action Plan Point 4***
55. Overall we are satisfied with the disclosures made in the statement of internal financial control. The statement on the system of internal financial control is consistent with our knowledge and understanding of the financial control framework operating at the council.

Looking Forward

56. In 2008 the CIPFA/LASAAC local authority SORP board confirmed that from 2010/11 all local authority accounts will be prepared in accordance with International Financial Reporting Standards (IFRS). This change will bring local government bodies into line with other UK public sector bodies. A comparative balance sheet as at 1 April 2009 will be required.
57. Local authorities were encouraged to have restated their comparative balance sheets by 31 March 2010. Whilst Orkney Islands Council did not meet this deadline, they are now working towards a revised target of 31 October 2010. The preparation of financial statements in accordance with IFRS can require significant staff resource. We recommend that the council consider the impact of transition to IFRS will have on its resources and ensure that it has adequate arrangements in place to ensure a smooth transition.

Action plan point 5

58. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 include the requirement for each administering authority to prepare an annual pension fund report. The pension fund report should be published on or before the December following the year end. The Scottish Government is consulting on the requirement for a separate pension fund audit.

Use of Resources

Introduction

59. In this section we summarise the key aspects of Orkney Islands Council's reported financial position and performance to 31 March 2010. We also consider and report on the council's arrangements in place for workforce related issues, asset management and procurement.

The council's financial performance in 2009/10

60. Orkney Islands Council achieved a general fund surplus of £0.957m in 2009/10. The general fund balance brought forward of £18.752m at 1 April 2009 increased to a cumulative net surplus balance of £19.709m at 31 March 2010. This positive situation arises from the ability of the council to achieve delivery of surpluses on its budget without the need to draw on the use of the general fund balance.
61. Of this balance £11.751m has been earmarked for specific purposes including, for example, a renewable energy fund (£8m earmarked for the development of renewable energy projects) and a spend to save fund (£2.948m for a programme of efficiency measures). It also includes the Orkney College accumulated deficit (£0.486m), which is discussed at paragraph 65. This leaves an unallocated general fund balance of £7.958m, which is just below the council's policy to maintain a minimum general fund balance of £8m to meet unforeseen contingencies.
62. Table 2 shows the balance in the council's cash backed funds at 31 March 2010 compared to the previous year. Funds include the harbour authority account (paragraph 63), a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. As at 31 March 2010, the council had total cash-backed funds of £218m, an increase of £17.997m on the previous year. This is largely attributable to the surplus generated on the council's investment portfolio.

	2009/10	2008/09
	£m	£m
General Fund Balances	19.709	18.752
Harbour Authority Account Fund	183.954	166.450
HRA	0.487	0
Repair and Renewals Fund	8.564	8.752
Capital Fund	2.956	2.820
Capital Receipts Reserve	1.906	2.805
TOTAL	217.576	199.579
<i>Source: Orkney Islands Council Statement of Accounts 2009/10</i>		

63. The Orkney County Council Act 1974 authorises Orkney Islands Council to exercise harbour jurisdiction as a Competent Harbour Authority. The Act also requires the council to keep separate accounts in respect of the harbour authority account. The trading position from the harbour operations is reflected within the council's net cost of services.
64. The council reported a net increase in the harbour authority account fund balance in the year of £17.504m (2008/09: net decrease £16.164m). As a result the fund balance brought forward of £166.450m at 1 April 2009 increased to a cumulative net surplus balance of £183.954m at 31 March 2010. The main reason is due to the performance during the year of harbour investment activities including investments held by external fund managers. The council reported a return on investment activities in 2009/10 of £24.735m as opposed to a deficit of £8.913m in 2008/09.
65. Orkney Islands Council also provides further and higher education provision through Orkney College. The College is funded by direct grant from the Scottish Funding Council (SFC). During the financial year 2009/10, the College incurred a deficit of £1.097m for the year (2008/09: surplus £0.168m). The deficit within the year reflects the impact of impairment of assets recognised through the College's Income and Expenditure account. As impairment and depreciation charges are excluded from the total deficit carried forward, the net impact was a £0.284m decrease in the accumulated deficit position on the College to £0.486m as at 31 March 2010.
66. Over the last year the council has revised the overall governance arrangements covering Orkney College to manage the College's deficit position. In particular, the Orkney College Board now report to the Council's Education and Leisure Committee. Whilst the College's deficit position has reduced by £0.284m during 2009/10, the College's financial position was reliant on funding provided by the council. Contributions from the council totalled £0.455m, including £0.026m from the strategic reserve fund.
67. The College should ensure that it has adequate financial plans in place to address the financial deficit without relying on financial assistance from the council in the future.

Action Plan Point 6

Financial planning

68. The budget set for 2009/10 was based on a Band D council tax level of £1,037. The Band D council tax level was frozen at 2007/08 levels. In setting the budget the council agreed:
- No contribution be made from the general fund reserve to balance the budget
 - A savings target of £1m be set and this to be incorporated into the overall budget. This was allocated across individual services
 - The level of interest earned from the Strategic Reserve Fund and made available to fund specific services and/or projects should remain at £4.76m
 - A total of £2.219m is incorporated into the budget to recognise additional costs pressures

69. In comparison with the budget, the council reported a favourable outturn position of £0.133m. With the exception of Social Services and Housing, all service committees reported under spends against approved budgets. The over spend in Social Services and Housing was £70,000.
70. During 2009/10 the council reported an under spend of £0.613m against budget on its non-general fund services. Non general fund services comprise Scapa Flow Oil Port, Housing Revenue Account and Miscellaneous Piers. The under spend is attributable to the latter two as the Scapa Flow Oil Port had a slight overspend against budget. The Housing Revenue Account generated £0.487m against budget which has been set aside for future repairs and maintenance costs. The Miscellaneous Piers Accounts generated a surplus for the year of £0.791m against the budgeted surplus of £0.474m.

Future financial position

71. In 2010/11, the council again froze the council tax in accordance with the concordat with the Scottish Government. The latest budgetary control reports suggest that the council is currently on target to break even against its budget.
72. In common however with other councils, Orkney Islands Council will face significant reductions in funding over the next 3 years. The position will become clearer when the outcome of the spending review is known in October 2010. In anticipation of the savings that will be required the council has started to set out options for savings. Net general fund expenditure is budgeted at £85.648m in 2011/11 and the council is working on proposals to deliver a savings target of 20% or £17.13 m on this figure over the following 3 years. Service directors were asked to identify 20% service savings options and to grade these options as either low risk (where a cut should be made), medium risk (where a cut was possible but where care was required to achieve this) and high risk where the cut was possible but where the process was lengthy or difficult. Funding for future capital projects is also being reviewed as part of the same process. All services have set out their options and members will be asked to consider and prioritise these options over the next months.
73. At the same time five work streams have been set up to consider in detail critical aspects of delivering savings at this level. These cover; staffing/personnel strategy, budget forecasting, asset realisation, community engagement and review of IT and business processes. Whilst no decisions have yet been made in relation to workforce reductions, personnel are in the process of working up options to reduce staffing costs through enhanced voluntary redundancy policies and flexible working arrangements.
74. The council will also be formally engaging with the community through discussions with community planning partners and community councils over the budget situation and savings possibilities. A council blog "tough times – tough choices" has been set up to gather public opinion on potential cost savings.

Capital Performance

75. During the year the Council spent £10.468m on capital expenditure. This was financed by borrowing, capital grants and capital receipts.
76. The council's capital programme in recent years has seen significant levels of slippage. This continues to be the case in 2009/10. A paper was presented to the Policy and Resources Committee in June 2010 advising of slippage to the council's 2009/10 capital programme. The revised capital budget for 2009/10 was £27.8m of which £10.5m was spent. The council agreed that £7.961m of its 2009/10 capital programme be carried forward to future years and a further £9.110m be carried forward on the council non general fund capital programme.
77. In an attempt to better manage the capital programme and reduce the level of slippage, budgets for forthcoming years have been re-profiled (table 3). The council should ensure that the progress of capital expenditure is maintained and where indications of slippage are identified these are addressed in a timely manner.

Action plan point 7

2010/11	2011/12	2012/13	2013/14
£million	£million	£million	£million
69.836 ¹	10.657	6.029	3.850

Source: Paper to Policy and Resources Committee June 2010 – 'Capital Slippage 2009/10'

¹ – This includes the new Kirkwall Grammar School, Stromness Primary School, KGS Halls of Residence and the Leisure Pool (capital spend estimated at over £50 million). Spend Profile will be amended once preferred bidder announced

78. The council's capital programme has been developed around the council priorities and affordability. One of the council's strategic priorities is to ensure that everyone in Orkney has a suitable home. To address this target, the capital plan includes £13.237m of expenditure in developing a range of housing with extra care and support to meet the needs of older people in Orkney. This includes £12.612m on a social housing development programme with the target of adding 141–149 houses to council's portfolio.

Treasury management

79. The CIPFA Code of Practice on Treasury Management in the Public Services defines treasury management activities as management of the council's cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
80. During 2008/09, in light of the existence of favourable market rates, the council established a programme of borrowing as a means of financing its treasury management requirements. The council borrowed a total of £20m repayable after 12 months. During 2009/10, following guidance from Sector Treasury Services Limited, the council decided to continue with this programme of

borrowing and a further £10m was borrowed from the Public Works Loans Board. The amounts borrowed cover a four year period.

81. Orkney Islands Council determines its own capital programme for investment in fixed assets for the delivery of public services within the local area. The CIPFA Prudential Code for Capital Finance in Local Authorities supports this decision making process by providing guidance to local authorities.
82. As reported above the authority has borrowed during the year to finance capital expenditure. The Code outlines a minimum set of prudential indicators by which the council is required to review its borrowing levels against to ensure affordability of amounts borrowed. The Code requires authorities to establish and review prudential indicators at the budget setting process.
83. During 2009/10 the council did not establish prudential indicators before borrowing externally. Whilst we recognise that the council has subsequently established indicators for 2010/11 and beyond we highlight the importance of ensuring that these are reviewed annually to ensure affordability.
84. Following the Icelandic Banking sector collapse and the resulting impact on the local authority investments the CIPFA Code was revised. Along with the revised CIPFA guidance the Local Government Investment (Scotland) Regulations 2010 apply with effect from 1 April 2010.
85. Following advice from Sector Treasury Services Limited, the council has developed a Treasury Management Strategy Statement to ensure that the Council's treasury management activities are in accordance with the relevant legislation and guidance.
86. The council has estimated the future borrowing requirement to fund future investments. Given the current forecast costs of finance the council is looking to externalise its finance requirements through long term borrowing. The table below demonstrates the Council's borrowing requirement.

Table 4: Orkney Islands Council borrowing requirement

	2010/11 £m	2011/12 £m	2012/13 £m
New borrowing	54.000	0	0
Replacement borrowing	11.000	10.000	10.000
TOTAL	65.000	10.000	10.000

Source: Orkney Islands Council Treasury Management Strategy Statement and Annual Investment Strategy 2010/11

87. We will continue to monitor the council's treasury management arrangements in the coming year and ensure the council is in compliance with the relevant legislation.

Pension Fund

88. The Orkney Island Council Pension Fund provides pensions and other benefits to local government members and their beneficiaries. The Fund is part of the Local Government Pension Scheme and is a multi-employer scheme.
89. On an annual basis the fund's actuary Hymans Robertson carries out a valuation of the scheme under Financial Reporting Standard 17 (FRS 17). This valuation is incorporated into the financial statements of the Council. The following table summarises the actuary's FRS 17 valuation:

	31 March 2010	31 March 2009	31 March 2008
	£m	£m	£m
Fair value of employer assets	125.05	83.95	99.79
Present value of funded liabilities	(170.47)	(97.15)	(97.95)
Present value of unfunded liabilities	(9.29)	(7.00)	(6.63)
Net liability	(54.71)	(20.20)	(4.79)

90. Whilst the fair value of employer assets has significantly improved, the present value of the scheme liabilities has also increased. The FRS 17 valuation is based on methods and assumptions specified within the financial reporting standard. Its results reflect a snap-shot of the position at 31 March 2010. To assess the extent to which the council's funding objectives are being met and to identify the contributions payable by the council in future to meet the funding objectives, a full actuarial valuation is carried out every three years. The most recent full actuarial valuation was carried out at 31 March 2008 and was reported to the council in March 2009. This showed a funding level for the Orkney Islands Council Pension Fund of 86% with the shortfall of assets to the assessed cost of members' benefits amounting to £17.6 million.

Asset Management

91. Asset management can be defined as the activity that ensures that the asset portfolio is making the maximum possible contribution to achieving the council's objectives. This will involve strategic considerations, including for example, what number, type and location of assets are required to meet council objectives. It also involves the day to day maintenance and running of the assets. The annual running costs associated with managing and financing assets tend to constitute the second highest element of revenue budgets after employee costs.
92. The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that services are delivered in the most efficient and effective way. It can also reduce the opportunity cost of money associated with surplus property and reduce the council's carbon footprint.
93. In 2008/09 we noted that a Property Asset Management Plan had been adopted by full council. This asset management plan was seen as a starting point in respect of formalising the council's

property management functions and activities. The council acknowledged that significant work would need to be carried out in future years to ensure the fundamental principles of good asset management were established and disseminated across the council.

94. Asset Realisation is one of the council's workstreams identified to support the council in delivering savings over the three year period to 2013. The project objectives include:
- To assess the most effective use of the council property assets
 - To maintain the purpose and objectives of the council's property asset management plan by ensuring that the council's current and future service delivery requirements are adequately met by the provision of effective property solutions for the needs of the various council services
 - To effect the disposal of those property assets that are no longer required
 - To consider options for consolidating the council's property assets
 - To consider an improved strategy for property disposals that will reduce council expenditure on its property portfolio and provide the optimum income from the disposals
95. The working group has committed to a draft review of surplus property lists and procedures by the end of September 2010. We are disappointed on the level of progress made by the council in developing its asset management arrangements since approving its Property Asset Management Plan in 2008/09. It is essential that the key outputs under this work stream meet the agreed timescales.

Action Plan Point 8

Procurement

96. The Public Procurement Reform Programme aims to improve procurement across the Scottish Public Sector. To assess procurement performance across the Public Sector the Scottish Government promoted the use of an annual procurement capability assessment (PCA). The PCA assesses procurement performance and acts as a tool for sharing best practice and promoting continuous improvement across the public sector. Results are banded into non-conformance, conformance, improved performance and superior performance.
97. In 2009, the PCA was undertaken across Scotland's councils. Orkney Islands Council scored 8% which is a low score both in absolute terms as well as in comparison to the local government average of 22%. The council's score falls within the non-conformance banding and indicates that improvements are required across all assessment criteria.
98. Whilst we are aware that the council, like all islands councils, face challenges such as lack of resources, influence of the procurement function and geographical remoteness which affect procurement performance there is an opportunity for the council to be creative in response to these issues.

99. The council has established a working group to address the council's response to the PCA and to assist in development of a procurement strategy that aligns with the council's priorities and values. This could require substantial investment, both financial and staffing resource, by the council in order to improve procurement performance. Scotland Excel is due to undertake the next round of PCAs in the coming months and we will continue to monitor the council's progress in improving the situation.

Workforce management

100. During the year we carried out a review on the council's workforce management arrangements. We have reported our findings in a separate report. Our report includes recommendations to take forward the development of workforce management arrangements at the council. This report has yet to be finalised by the council. Our findings however are summarised in the following paragraphs.
101. The development of the council's workforce planning arrangements is now a key factor in how the council responds to the current economic climate. The corporate management team is conscious of the need to improve people management and the council is continuing to make progress in this area. Strategic workforce planning is not yet in place at the council. The council's HR strategy has not been updated since 2005 and the council does not have a workforce plan. The council is however restructuring its workforce to ensure it can demonstrate a clear line from the delivery of its strategic objectives to staff personal objectives. Effective people management is particularly important at this time to support the council and its workforce through the challenging times predicted by economists for the public sector over the next few years.
102. The council has introduced focussed reporting on absence levels across departments for managers, the corporate management team and elected members. This focus has resulted in an overall reduction in absence levels. Absence levels however continue to be above the Scottish target of 4.0%. Further work is required in reducing sickness absence levels and the council should continue to drive out efficiency savings through reduced staff absence.
103. The review found that Orkney Islands Council continues to report poor levels of formal staff appraisals across departments. The council has developed a staff appraisal system but this is not being used by all directorates or reported effectively across the council. In addition, appropriate training and support on conducting appraisals made available by Personnel staff had not always been taken up by managers. There have been five training sessions to date in 2010 with 12 spaces available on each session. 33 members of staff have taken up the training.
104. Succession planning arrangements are not well developed in Orkney Islands Council. The council has had difficulties in recruiting staff to some senior posts. It has therefore used internal staff to take on these posts on an interim or acting basis. However, these can be for extended periods of time and staff may not be fully supported in their role or the transition back to their previous post. In addition, succession planning does not cover all staff within the council. There

is a risk that staff in middle-tier management posts are not being trained and developed to take over from staff acting up to senior posts and this could result in a gap in management tiers.

105. The council is currently undertaking a review of its workforce structure. The council should use this review to address the key issues raised within our report and to continue to embed revised policies and reporting arrangements.
106. In 2006/07, Orkney Islands Council made payment for all amounts due under equal pay legislation. These payments covered all liabilities due in the period to 31 March 2007. No cases have been submitted to an employment tribunal regarding equal pay claims.
107. In prior years the council has earmarked balances in relation to single status (2008/09 £1.545m). During 2009/10, it was concluded that this earmarked balance was no longer required. The balance has been transferred to a 'spend to save' earmarked balance of the general fund.

Joint Working in Orkney

Schools Investment Programme

108. In our 2009 annual report to the council we reported on the council schools investment programme. This included the proposal to build two replacement schools a halls of residence and a swimming pool using a hybrid PPP model. The model involved the setting-up of a wholly owned community interest company (CIC) to procure and undertake the project. Potential bidders were asked to price for the contract on the basis of this model. During the course of this bidding process the Scottish Government announced its intention to fund this programme by way of a £40m capital grant with ongoing revenue support for life-cycle maintenance and hard facilities costs. The CIC model is likely to be abandoned as an option. Potential bidders have confirmed that their bids remain valid despite the changes in funding model and the council are currently evaluating these bids. Considerable costs and time have been incurred by the council in exploring the CIC option required initially by the Scottish Government but dropped as a requirement when the funding model changed. These costs have therefore been incurred for little benefit.

Shared support services

109. The council has for some time been exploring the potential to deliver back office support services on a shared basis with NHS Orkney. The area identified for a shared services solution initially was ICT but with the potential to also cover human resources, hotel services, property maintenance, internal audit and finance. The model considered most appropriate for delivering these services was a special purpose vehicle between the two organisations. As part of the consideration as to whether to take this initiative forward CIPFA Consultancy were asked to appraise the approach being taken. Their report considered the savings that could be delivered, the additional set-up and on-going governance costs, the compatibility of systems, VAT issues and cultural differences. Their conclusion was that given the issues identified, a shared services platform comprising all the services identified was unlikely to generate the savings even over the medium term which would mitigate against set-up critical investment costs, system/process

incompatibility, potential irrecoverable VAT and additional governance costs. This initiative has been suspended whilst the Management Teams in the Council and NHS Orkney consider their future options.

Marine Services

110. The council has taken the decision to integrate the services currently provided by its subsidiary companies, Orkney Ferries and Orkney Towage into the council. This will allow more joined up working arrangements to be put in place between ferries, towage and council staff. The integration of ferry services is optimistically planned to take place in April 2011. The council is anticipating taking advantage of recent changes to occupational pension scheme regulations which for certain restructuring arrangements means employers can stop participating in the scheme without being required to pay a cessation debt to the scheme. Even if these regulations do avoid crystallising the debt on the scheme, the integration of these services is likely to require the council to guarantee the S75 debt that would arise.
111. The ferries service is also one of the largest potential areas for future capital investment. The age of the ferries fleet is such that future investment will be required over the next few years. The council has submitted a STAG 2 business cases to the Scottish Government but no confirmation of whether capital funding for new ferry purchases has been received. The provision of ferry services to the north and south isles of Orkney will also be covered by the Scottish Government ferries review. Delays in obtaining funding will however become an increasing risk to the continuity of lifeline ferry service provision to the islands and the council will need to consider other alternative approaches to funding priority services.

Performance

Introduction

112. An effective council is one which has a clear and ambitious vision for what it wants to achieve for its locality and communities and for securing high quality services and effective outcomes for local people. The vision should be promoted by elected members and senior officers of the council and supported by staff and partners. The vision should be supported by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council is one which has a performance management culture embedded throughout the organisation. The council's performance management framework should be integrated with service planning and delivery.
113. In this section we provide a high level overview of performance management in Orkney Islands Council.

Performance management and reporting

114. The council introduced performance reporting to service committees in 2009 as part of its commitment to improving its performance monitoring arrangements. As part of this development elected members requested information from officers on alternative reporting styles used by other councils and options for performance reports. In line with recommendations within the 2008 Best Value audit the council benchmarked its performance arrangements against councils. To ensure the performance reports provide the most effective support to members, options for performance reports were presented to the Policy and Resources Committee. The committee was consulted on what members wanted from performance reports and their preferred reporting style. In November 2009, following this work, members approved an executive summary style of performance reporting.
115. Performance reports are now presented to committees on a six monthly basis. In addition to these executive summary reports, fuller performance information is published on the council's website 14 days prior to committee meetings. Elected members are therefore able to access additional performance information and provide additional scrutiny. This information is also publicly available.
116. The council's performance management system is predominately a paper based system. The council estimates that staff time spent on administering the basic system of corporate performance reporting is over 1,500 staff hours per annum. This includes officer time across the six council services, the co-ordination of data across the council and administering the corporate improvement plan. Staff are responsible for developing and maintaining performance information and demonstrating how it links to the Orkney SOA and to the council's strategic objectives and outcomes.

How good is our council?

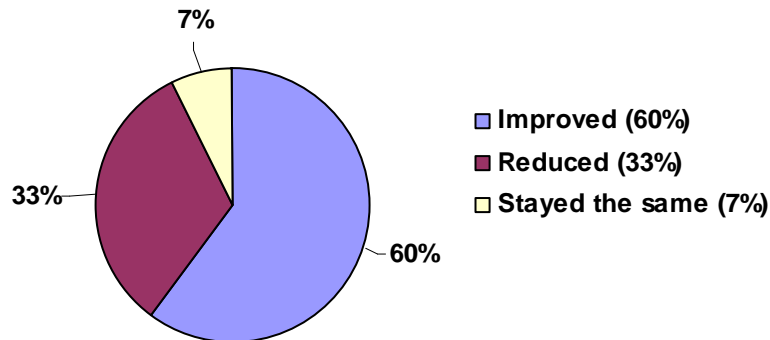
117. In 2009, Orkney Islands Council adopted the How Good Is Our Council (HGIOC) system as its approved model for self-evaluation. The council recommends that all services should develop a system of self appraisal and therefore is rolling out HGIOC across the whole council. As part of taking this work forward HGIOC was piloted in full in four services. These services were corporate services, development and environmental services, finance and housing services and marine services. All four services held a series of workshops as part of developing services' self-assessment under the HGIOC model. These workshops were used to identify key indicators for each of the services as well as the capacity for improvement within each service.
118. The council's education and leisure service and its community social services both chose to use a partial model of HGIOC. Education and leisure services have a related model already in place called 'How good is our school?' Whilst this model only covers some of the work of Education and Leisure's service remit the service chose to align the output of its existing model with the outputs of HGIOC. Community social services has elected to carry out a mapping exercise to link recent social work inspectorate agency (SWIA) reports to HGIOC objectives.
119. A project board has been appointed to oversee the development and implementation of How Good is Our Council. The project board is the council's corporate management team which meets regularly in its capacity as the project board. The council must ensure that opportunities are not lost for the non-consistent application of the HGIOC self-assessment model across services. Services must be held accountable for using and reporting HGIOC to the council's senior management and elected members. To date, officers have not provided reporting on How Good Is Our Council to elected members even though elected members approved the original processes for implementing HGIOC and for supporting officers to develop this. The council expects that information from HGIOC will be reported as actions and outcomes within service improvement plans. These plans feed into wider council plans and performance reports and will therefore be reported to service committees and the council as part of services' performance reports.

Single Outcome Agreement

120. In line with Scottish Government guidance Orkney Islands Council has developed its single outcome agreement (SOA) with its community planning partners. The council incorporated the outcomes for the Orkney Community Care Partnership into a community SOA for 2009-11. This SOA was updated and approved in August 2010. The updated SOA drew upon guidance provided jointly by Audit Scotland the Scottish Government, SOLACE and the Improvement Service.
121. The SOA includes 109 indicators. To monitor the delivery of the 109 indicators the council and its partners developed a data dictionary for each of the indicators. Each dictionary identifies the lead officer for delivering the outcome, its linkage to the Scottish Government's national outcomes and the performance indicator which will be used to monitor performance. SOA

indicators have been embedded within the council's balanced scorecard performance management system and the council has encouraged its partners to include SOA indicators within their own performance management systems. Full reporting against SOA indicators is however undertaken only once a year. As can be seen from Figure 1, of the 85 indicators for which the council has performance data 60% of these demonstrate an improvement in outcomes.

Figure 1 – Changes in performance against SOA outcomes for 2009/10

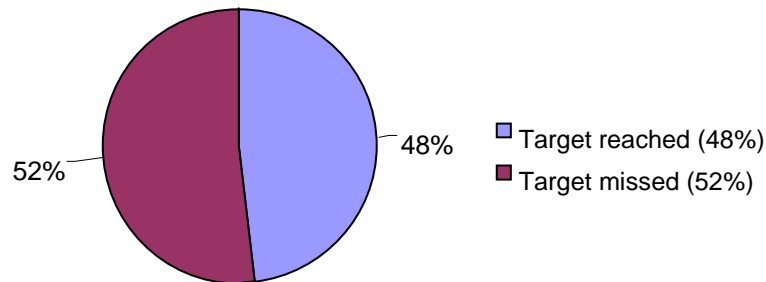


(Source: Scott-Moncrieff, from data supplied by Orkney Islands Council)

122. As at 5 August 2010, the council had performance information for 85 out of 109 indicators. The performance information used for the remaining indicators is from nationally produced reports and the council is therefore reliant on the publication of external information. Some of the performance information collated from national reports is for the previous financial year, i.e. 2008/09 rather than 2009/10. Therefore the council is not able to effectively monitor performance or changes in performance information throughout the year.
123. Despite reporting improved performance in 60% of its indicators the community planning partnership failed to meet 52% of its targets (Figure 2). The council and its SOA partners should ensure that these targets are realistic. If they are considered realistic the council and its community planning partners need to understand and address underperformance.

Action Plan Point 9

Figure 2 – Performance against SOA targets for 2009/10



(Source: Scott-Moncrieff, from data supplied by Orkney Islands Council)

Statutory Performance Indicators

124. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). For 2009/10, the Accounts Commission made a significant change to the SPI direction. The 2008 direction which defines the reporting requirements for 2009/10 incorporates two main requirements:
- That councils report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
 - That councils report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2)
125. In reporting against SPI 1 and SPI 2 above, all councils are required to report performance against 25 specified indicators, as defined in the 2008 direction. In addition, councils must select a range of non-specified indicators to demonstrate that Best Value and compliance with the 2008 Direction.
126. As auditors we are required to assess whether adequate arrangements are in place for collection and publication of accurate and complete information and that these are functioning effectively.
127. As part of the council's strategic planning and performance and risk management framework, all six council services have in place a balanced scorecard comprising a range of performance indicators, some statutory, some SOA, some national, some unique to the services, and some common to all services of the council. In order to meet the requirements of the 2008 direction, the council has identified a number of these as non-specified indicators. 109 indicators were planned to be reported to meet the 2008 direction (84 non-specified, 25 specified).
128. The range of indicators reported by the council ensures coverage of SPI 1 and SPI 2. There were however 7 indicators (relating to sustainable development and equalities and diversity) which the council planned to report to meet the requirements of the direction but had not been reported at the time of our audit.

Action Plan Point 10

129. The Accounts Commission is concerned that councils should make greater use of cost information to demonstrate that they are achieving a balance between cost and quality in service delivery as part of their Best Value performance management and public performance reporting obligations. The Commission is firmly of the view that service cost information is important to stakeholders and citizens, providing additional context for the assessment of performance. At present, service cost information is not widely reported through the council's scorecards.

Action Plan Point 11

130. Internal audit has carried out an independent verification on the adequacy of the arrangements over a sample of indicators. We also carried out testing on a sample of indicators. Internal audit identified 7 indicators which would not produce reliable information as the Services concerned had advised that those indicators were not supported by robust data dictionaries and data gathering systems. Our audit testing identified a further 2 indicators which had not been reported or where no data had been collected (table 6).

Action Plan Point 12

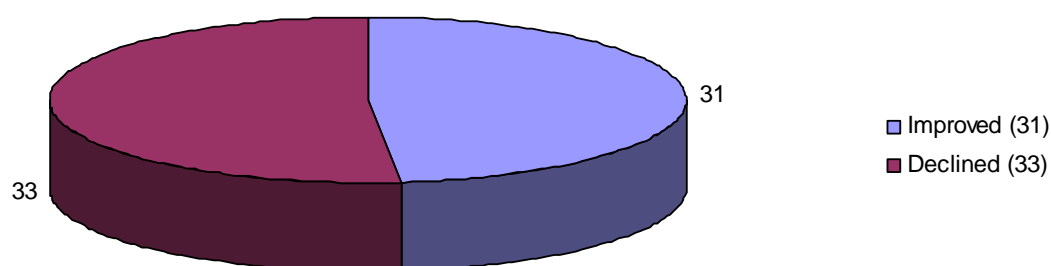
Table 6: indicators identified as unreliable, or which had not been reported

1.	% children removed from child protection register
2.	management intervention of sickness absences – marine services
3.	maintenance/repairs completed in 30 days
4.	community care assessment time of 28 days
5.	% of community care users who feel safe, supported and included
6.	management intervention of sickness absences – development and environmental services
7.	Proportion of journeys to work by active travel or public transport
8.	The rate of new business start ups – VAT registrations per 10,000 adults

131. The council plans to report the performance information of the 25 specified indicators by 30 September 2010 through the council's website. There is also an intention to produce an annual performance report which will include data from its specified and non-specified indicators. This will cover the calendar year 2010.

132. Figure 3 demonstrates where Orkney Islands Council's performance has improved or declined since 2008/09 in relation to the 25 specified performance indicators.

Figure 3 Changes Demonstrated by SPI's in 2009/10 (25 Indicators)



Note: the 25 specified performance indicators comprise of multiple components therefore the results above report more than 25 indicators

133. The table below details a sample of those indicators where performance has declined in comparison with the prior year.

Table 7: Indicators where performance has declined in comparison with 2008/09			
		2009/10	2008/09
Sickness Absence	Average number of working days per employee lost through sickness absence (teachers)	8.8	5.9
Equal Opportunities	The percentage women employed in the top 2% and;	27.6%	35.7%
		5%	31.9%
Administration Costs	Costs per benefits case	£68.67	£65.47
Council Tax Collection	Cost of collecting Council Tax has increased	£25.80	£23.89
Asset Management	The % of buildings that are suitable for their current use	88.6%	85.9%
Processing Time- Planning Applications	The % of planning applications that have been dealt with within 2 months	63.5%	68.8%
Response Repairs	% of response repairs that have been completed within their target times	85.4%	91.4%
Housing Stock	The average time that houses have been un-let at the year end	245days	223days
Refuse Recycling	The % of municipal waste composted/recycled	27.9%	29.5%

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

134. Following the publication of Orkney Islands Council's Best Value and Community Planning report in 2008, an improvement plan was approved by the council which linked detailed action points to the nine key areas for improvement. The points in this improvement plan have been built into

either the corporate improvement plan or service improvement plans. These plans are monitored on a regular basis by the corporate and Service management teams, and by the relevant service committee and Policy and Resources Committee.

135. In 2008/09, we reported that the council had made real progress in addressing most of the areas included within the audit improvement plan, in particular in developing its performance management arrangements. Further progress however needed to be made in relation to its management of people. This was identified as a specific risk area in the assurance and improvement plan and as a result we carried out, along with Audit Scotland, a specific review of the council's workforce management arrangements during the year. Our findings have been reported at paragraph 102.
136. Public Performance Reporting (PPR) was also identified as an area for improvement in the 2008 best value report. In line with its review of community planning arrangements Orkney Islands Council has been reviewing its public performance reporting arrangements and how these can be approved. A policy officer has been appointed to lead on reviewing and suggesting proposals for developing this work.
137. Currently, the council publishes an annual public performance report. In May 2009, the council worked with community councils and key stakeholders to identify the format and information within this report. The current format and performance information is therefore based on the results of this consultation work.
138. The council realises that the development of an SOA covering the islands means that clearer linkage is required between the council's annual report and the SOA. In addition to the annual public performance report the council is developing its press releases, on-line service plans and communications to demonstrate the link across service delivery. The council realises that it must ensure balanced reporting. This however is not just reporting poor performance and failure to deliver outcomes but that it also ensures that it does not play down good performance and successes.
139. Given previous audit findings highlighting that public performance reporting is an area of uncertainty for the council, the council has chosen to apply the Audit Scotland toolkit to review its arrangements. This toolkit is one of 18 developed by Audit Scotland to assess the delivery of best value within public sector bodies. The toolkit is expected to be completed by September 2010. An action plan will be developed as part of this self-assessment to identify steps required by the council to improve.

Governance

Introduction

140. Governance is about direction and control of organisations. It is concerned with structures and processes for decision making and accountability. Good governance can be defined as “*the way a local authority operates is based on sound decision-making and effective processes are in place to support these decisions*”.
141. The assurance and improvement plan (AIP) assessed the council having no significant risks in this area. The AIP however acknowledged that a number of governance issues still needed to be resolved over the formation of the community health and social care partnership (Orkney Health and Care). In response to this we carried out a specific review into the proposed governance arrangements for Orkney Health and Care. We have also considered the council's corporate governance arrangements. This section sets out the main findings from our review.

Roles and Relationships

Management Arrangements

142. Alistair Buchan, chief executive, was seconded to Shetlands Islands Council on 5 July 2010 for a period of 27-33 months. Albert Tait, the council's director of finance & housing, was subsequently appointed to the post of chief executive and head of paid service. The assistant director of finance was appointed as interim director of finance & housing and s95 officer. These appointments were made internally following a recruitment and selection process. The appointments were made internally to ensure that they could be made promptly and would have minimum impact on the transitional arrangements for the council and on the wider community. We acknowledge the council's decision to appoint internally however best practice would suggest that the appointment of senior posts, such as the chief executive and director of finance, should be advertised externally and we recommend this is followed in future for senior management appointments.

Action plan point 13

143. Succession planning is a key issue for Orkney Islands Council. The council has found that it has had difficulties in recruiting staff to senior posts and therefore has had to appoint staff from limited numbers of applications. Even where people have applied for interviews the council has found that applicants have withdrawn before the interview stage. The council has not undertaken work to identify why this has happened and therefore cannot be sure that this will not be repeated for future recruitment processes.
144. The council's CMT has seen a number of changes in the past five years. The council has seen staff retire, leave to take up posts with other councils, take up secondments within the public sector and also senior posts being appointed on a temporary basis.

145. The chief executive is currently undertaking a review on the overall management structure of the council.
146. There are a number of individuals carrying out distinct roles on behalf of the council as consultants (either directly or through service companies). During the year we carried out a PAYE review at the council and outlined the potential Employer's NIC liability which may arise in connection with payments made to consultants.

Support and training to elected members

147. Orkney Islands Council recognises that it should be developing and improving its support and training to elected members. The council therefore set up an elected members' executive support team in November 2009. This team brings together elected member secretarial functions as well as staff responsible for developing and overseeing elected member training.
148. Training for elected members has been on an informal ad-hoc basis. Timescales and frequency of elected member training can vary. The council holds training events and seminars throughout the year but the frequency is dependent on training needs identified and staff and member availability. There was previously no system for recording elected member training or members attendance at training. There is also no formal reporting to the council's CMT or elected members on attendance at elected member training. In an initial first step to capture this information the council developed a template that staff had to complete ahead of any training. This template highlights the issue to be covered by the training, the need for such training and how it will be delivered. This is a paper based system and forms are held centrally by elected member support. A database of elected member training should be created and maintained by the council. The council should also receive formal reports on elected member training and levels of attendance.

Action Plan Point 14

149. Areas for training are identified through a range of sources. These include discussions with the Convener and direct requests from elected members as well as areas identified by council officers and changes in relevant legislation. For example, a training session for members was held following recent changes in procurement legislation. The council recognised that it was important that members were aware of these changes and the impact it has on the council's procurement processes.
150. The council does not have a formal programme of continuous professional development (CPD) for members. The council recognises that this is an area that it needs to develop and is proposing to use the model being developed and rolled out by the Improvement Service. The Improvement Service model has not yet been launched (it is expected to be launched in September 2010) and therefore the council has not been able to implement this to date.
151. In addition to routine training seminars for elected members the council is in the process of carrying out leadership training for elected members and senior officers. These sessions not

only look at how members and officers can enhance their own skills but how the council can enhance the working relationships between elected members and senior officers. To help profile these sessions the council has brought in external speakers such as the President of the Convention of Scottish Local Authorities.

Code of Governance

152. Orkney Islands Council code of corporate governance was adopted in 2004. In 2008 CIPFA and SOLACE published "Delivering Good Governance in Local Government; Framework" which represented a change to the available good practice guidance for local authorities. The framework includes self-assessment checklists and sections on joint working arrangements and partnerships. Given the challenging agenda facing the council in these governance areas and in others, it is disappointing to note that the existing council code has not been updated. We strongly recommend that this is done to ensure it reflects current guidance and that an annual self-assessment is undertaken to demonstrate the council is compliant with its revised local code.

Action Plan Point 15

Political Scrutiny at Orkney Islands Council

153. Political scrutiny of decision making at Orkney Islands Council operates at various levels. All major policy and expenditure decisions by service committees are required to be approved by full council. This means that there is a built in quality check on decision making. In addition all members are also members of the council's Policy and Resources committee. This means that decisions with a financial impact by service committees will already be subject to a further level of scrutiny.

154. The Monitoring and Audit committee also has an important scrutiny role in the council. The committee's remit incorporates the following scrutiny responsibilities within it:

- To assess the adequacy and effectiveness of the council's strategic planning and performance management arrangements, as outlined in the Strategic Planning Framework
- To provide an overview of the scrutiny implementation and performance management for the council

155. We note that the council are considering strengthening the role of the committee in relation to scrutiny by making the distinction between audit and scrutiny more explicit in terms of reference. We recommend that certain meetings are specifically identified to cover scrutiny responsibilities and that this includes reviewing and challenging reports from other inspection agencies. We would also recommend that the Monitoring and Audit Committee agrees a work programme of areas it wishes to scrutinise over the year and in so doing follows the principles of good scrutiny set out below.

Action Plan Points 16 and 17

Table 8: The role of scrutiny

Provides critical friend challenge to executive policy makers and decision takers

- Constructive, robust and purposeful challenge
- Non-aggressive to create optimum conditions for investigative evidence based process

Enables the voice and concerns of the public

- Meetings conducted in public which invite and enable public participation
- Innovative public communication and feedback

Carried out by independent-minded councillors who lead and own the process

- Councillors actively engaged in the scrutiny function to drive improvement
- Areas are reviewed in an apolitical atmosphere

Drives improvement in public services

- Promotes community well-being and improves the quality of life
- Strategic review of corporate policies, plans, performance and budgets

Source: Centre for Public Scrutiny: Good scrutiny guide

Orkney Health and Care

156. From 1 April 2010, Orkney Health and Care became a substantive service of the council and NHS Orkney. Orkney Health and Care incorporates a range of existing community health partnership services together with all social work services. During 2010 we undertook a comprehensive review of the governance arrangements in place over Orkney Health and Care. This was reported to the council in April 2010.
157. Our report included a number of recommendations that the council has been actively addressing since the report was issued. In particular the creation of Orkney Health and Care has been recognised within the council's existing governance framework. The Orkney Health and Care sub committee has been formally recognised within the council's scheme of delegation and reports to the Policy and Resources committee. When this sub committee meets with the NHS committee, the two committees form the Orkney Health and Care board. The level of delegation to Orkney Health and Care sub-committee is restricted ensuring governance arrangements remain consistent across the council.
158. Our report also identified issues surrounding the operational delivery of Orkney Health and Care. During our audit we found that progress has been made by the council in addressing these issues, in particular the council has undertaken a recruitment process to recruit a joint director of Orkney Health and Care. Whilst a suitable candidate was not found the role is being filled on an interim basis. The role of chief social work officer at the council is being filled on an interim basis.
159. There are a number of recommendations within the report that have yet to be fully implemented. We recommended that to deliver against the Orkney Health and Care strategic vision, '*Working together to make a real difference*' they should produce a formal strategic plan to define its strategic aims and direction, and outline the resources it will require in pursuing this vision. This plan has yet to be formally established.

160. The human resource framework in place to manage potential conflicts between the council and NHS Orkney is currently inadequate. We have recommended that a human resource protocol, local financial protocols and service level agreements are established to ensure there are comprehensive arrangements for staff management, particularly in areas of cross organisational working. These should be formally approved by both the council and NHS Orkney.

Community Planning Partnership

161. In 2009 the council undertook a review of its community planning arrangements. As part of this review the council identified that there is a need for greater levels of engagement and consultation with local communities, stakeholders and also with elected members. The islands have numerous groups of stakeholders including local community councils, residents groups and interest groups. The council should consider how it can engage more effectively with each of these groups to ensure that their views and concerns are considered as part of its community planning work. Orkney's community planning partnership has the opportunity to support the development of joined up community groups, therefore giving them enhanced representation.

162. The council's review identified that it must do more to promote community planning partnership work within the islands. The council must seek to effectively brand community planning partnership outcomes and to communicate this to the people of the islands. Due to the size of the islands and its staffing resources, officers involved in developing the community plan and community planning partnership are also the officers responsible for delivering its outcomes. This gives enhanced levels of accountability and commitment to the community plan.

Following the Public Pound

163. Orkney Islands Council works with a number of companies, trusts and other external organisations to deliver a range of services. The code of guidance on funding external bodies and following the public pound (the Code) underlines the need for good governance and clear accountabilities.

164. In previous years internal and external audit have undertaken reviews of the council's involvement with arms length organisations (ALEOs) and other bodies receiving funding from the council. A number of weaknesses were identified including:

- Member and officer involvement on the Boards of ALEO's was inconsistent and not all members and officers were aware of their legal responsibilities in relation to this involvement. During 2009/10 the council took the decision that no officer should hold a trustee or directorship position with any of the ALEO's the council engages with. This was based on the potential for conflicts of interest to arise between an officer's responsibilities to the council as an employer and that officer's responsibilities and personal liability when appointed to an outside body. Members are still however exposed to these conflicts. The financial position of the council ALEO's and the extent of funding guarantees given in relation to pension deficits increases the risk of conflicts of interest existing. Whilst some training on Companies Act

responsibilities was carried out in 2009 we would recommend that further specific training be given to councillors serving on boards to ensure they are clear on their legal responsibilities.

Action Plan Point 18

165. We are also pleased to report that there have been significant improvements towards ensuring that there are agreements in place with organisations where funding exceeds £10,000. In addition monitoring of the conditions attached to these agreements is taking place on a regular basis.
166. In relation to the council's involvement in its two main wholly-owned subsidiary companies; Orkney Towage Limited and Orkney Ferries Limited, both companies operate under service level agreements with the council and both companies have significant short and longer term liabilities in relation to the local government pension scheme and merchant navy pension schemes. We understand that the council are currently considering what options are available in relation to funding these deficits.

Risk Management

167. The council's risk register was developed in 2008 with the help of Zurich Municipal. Since this was implemented the council has continued to develop and roll out its risk management arrangements across services. Service risk registers have been developed for all services and it is important that these are updated to reflect the new structure and also to reflect any changes in staff or organisational structures following the recent restructuring work.
168. As part of its continued review and improvement of its risk management arrangements the council held a series of training workshops during 2009/10 for senior managers and elected members to improve their understanding and scrutiny of risk management arrangements. Initial workshops were facilitated by the Zurich Municipal risk specialists who worked with the council in 2008. Subsequent risk workshops were facilitated by Orkney Islands Council staff, therefore ensuring that the council developed its own risk specialists and that knowledge and expertise was retained in house. The council recognises that it must continue to develop and improve its risk management arrangements and is committed to doing this.

Prevention and Detection of Fraud and Irregularity

169. The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
170. At a corporate level, the council has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, a fraud policy and codes of conduct for elected members and staff.
171. Overall we concluded that arrangements at Orkney Islands Council were generally satisfactory to prevent and detect fraud and other irregularities. We did however note that the council's

register of interests for both elected members and chief officers had not been refreshed for a number of years. The council was due to commence an exercise to update this register during 2009. This however has yet to be carried out.

Action Plan Point 19

National Fraud Initiative

172. The National Fraud Initiative is a counter-fraud exercise currently undertaken in Scotland as part of statutory audits. In May 2010, Audit Scotland reported the results of the 2008/09 exercise 'The National Fraud Initiative, making an impact'. The cumulative outcomes of NFI in Scotland are now around £58m.
173. Audit Scotland's report identifies Orkney Islands Council as one of seven councils where its participation in NFI needs to improve. Areas with scope for improvement include the submission of data on time and reporting arrangements.
174. The council is currently preparing to submit its data for the 2010/11 NFI exercise. This is due on the 4th October 2010. We understand the lead officer is committed to achieving this deadline.

Appendix 1: Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Priority 1	<ul style="list-style-type: none">• Key control absent or inadequate• Serious breach of regulations• Significantly impairs overall system of internal control• No progress made on implementing control• Requires urgent management attention
Priority 2	<ul style="list-style-type: none">• Element of control is missing or only partial in nature• Weakness does not impair overall reliability of the system• Recommendation considered important in contributing towards improvement in internal controls• Management action required within a reasonable timescale
Priority 3	<ul style="list-style-type: none">• Control exists or on target to be implemented within timescales• Minor weakness, does not compromise overall system control• To be considered by management within a reasonable timescale

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
1	21	The council should ensure that the arrangements in place for the public inspection of the financial statements are in accordance with the 1985 Regulations. Priority 3	Agreed We will endeavour to comply with the requirements of the Local Authority Accounts (Scotland) Regulations 1985 when making the 2010/11 accounts available for public inspection.	Director of Finance and Housing	August 2011
2	40	We recommend that the council establish a comprehensive plan for its review of council title deeds to ensure that a full review is undertaken in a timely manner. Priority 2	The limited staff resources available to the Legal Services Section dictate that this work can only be undertaken on an ad-hoc basis.	Assistant Director Law and Administration (Corporate Services)	This will be an ongoing workstream over a number of years.
3	42	We recommend that a detailed evaluation of moveable assets be undertaken to ensure that all moveable common good assets are recorded in the asset register. Priority 2	A reconciliation between the list of moveable assets recorded as belonging to the Common Good Fund and the Council Asset Register will be undertaken	Director of Finance and Housing	March 2011
4	54	The director of finance and housing should consider requesting that all service directors provide assurance statements on the internal financial controls operating in the year. Priority 2	Agreed Assurance statements will be requested from Directors for the year ended 31 March 2011.	Director of Finance and Housing	March 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
5	57	<p>We recommend that the council consider the impact of transition to IFRS will have on its resources and ensure that it has adequate arrangements in place to ensure a smooth transition.</p> <p>Priority 2</p>	<p>The Council is aware that this transition will place an additional burden on a small team that may be required to make savings as a result of budget cuts It is recognised that with less resources the transition may not be a smooth as would otherwise have been the case.</p>	<p>Director of Finance and Housing</p>	<p>June 2011</p>

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
6	67	<p>The College should ensure that it has adequate financial plans in place to address the financial deficit without relying on financial assistance from the council in the future.</p> <p>Priority 2</p>	<p>Agreed that the College should have adequate financial plans in place to achieve a balanced budget.</p> <p>The Education and Leisure Services Committee meeting of 8.09.10 considered the current financial position for the Orkney College and gave consideration to the draft budget for the academic year 2010/11. The Committee recommendation to the Policy and Resources Committee that the Strategic Reserve Fund be applied to underwrite, in conjunction with the Education Service, the write-off of the accumulated deficit on the Orkney College of £486k as at 31 March 2011 and also recommended that the draft budget as submitted by the CMC of the Orkney College for the academic year 2010/11 not be accepted in it's current format and that a further report be submitted to the next meeting of the ERSC, together with a revised budget for 2010/11.</p>	College Principal	March 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
7	77	The council should ensure that the progress of capital expenditure is maintained and where indications of slippage are identified these are addressed in a timely manner. Priority 2	Agreed Slippage is routinely reported to Service Committees as part of the budget monitoring process. An annual report on capital slippage carry forward has also been submitted to the Policy and Resources Committee for a number of years.	Reporting of Capital Spend is the responsibility of the Director of Finance and Housing while Service Directors are responsible for the delivery of individual capital projects.	This will be an ongoing requirement rather than an action where a completion date can be set.
8	95	We are disappointed on the level of progress made by the council in developing its asset management arrangements since approving its Property Asset Management Plan in 2008/09. It is essential that the key outputs under this work stream meet the agreed timescales. Priority 2	Noted A lack of staff resources with the secondment of key individuals to the Schools Investment Programme have limited progress in the Council's development of its asset management arrangements. An asset realisation workstream has been established as part of the Council's Budget Reduction Strategy.	Director of Development and Environment Services for general asset management arrangements. Acting Assistant Director (Property) for the Asset realisation workstream.	The asset realisation workstream covers the three year settlement period April 2011 till March 2014.
9	123	The community planning partnership should review its targets to ensure that they are both ambitious and realistic. Priority 2	The Council will request that the Community Planning Partnership reviews its targets to ensure they are realistic.	Chief Executive	March 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
11	129	<p>The Commission is firmly of the view that service cost information is important to stakeholders and citizens, providing additional context for the assessment of performance. At present, service cost information is not widely reported through the council's scorecards. We would encourage the council to consider developing further indicators on service costs.</p> <p>Priority 3</p>	<p>Consideration of costs is being progressed as a specific work stream, which is looking at ways of calculating key unit costs for all frontline and support services however with impending budget reductions of 20% over the next three years it is unlikely that resources will be available to develop cost information for scorecards. A reduction in performance reporting through scorecards is a strong possibility.</p>	Director of Finance and Housing	N/A
12	130	<p>Internal audit identified 7 indicators which would not produce reliable information. Our audit testing identified a further 2 indicators which had not been reported or where no data had been collected. Arrangements should be put in place to ensure these indicators are reported.</p> <p>Priority 2</p>	<p>Following completion of the 2009/10 SPI process, the Chief Internal Auditor and the Council's SPI Coordinator will review any gaps in the process, with a view to ensuring full compliance and accuracy in the 2010-11 SPI process.</p>	Assistant Director Strategy and Improvement (Corporate Services) in collaboration with the Assistant Directors responsible for reporting arrangements for each unreliable indicator.	31 March 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
13	142	We recommend that in future the permanent appointment of senior management posts is advertised externally. Priority 3	If suitable internal candidates exist for interim or temporary posts the Council can save considerable expense by recruiting internally. For recruitment to permanent senior management posts the Council would normally advertise externally. The Council is however adopting a presumption against recruiting permanently while the current budget uncertainties remain.	Chief Executive	N/A
14	148	A database of elected member training should be created and maintained by the council. The council should also receive formal reports on elected member training and levels of attendance. Priority 3	Democratic Services will maintain a record of Member Training. The Council has already agreed to formally report Member attendance at Council meetings following a recommendation by the Policy and Resources Committee made at its meeting on 17.02.09:- "that a record of attendance by members at all meetings of the Council, its committees and sub-committees, which were open to the public, be published annually on the Council website"	Head of Executive Support (Corporate Services)	March 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
15	152	We strongly recommend that the council's code of corporate governance is updated to ensure it reflects current guidance and that an annual self-assessment is undertaken to demonstrate the council is compliant with its revised local code. Priority 2	This work will now be prioritised and revisions made for members' consideration.	Assistant Director Law and Administration (Corporate Services)	December 2010
16	155	We recommend that certain meetings are specifically identified to cover scrutiny responsibilities and that this includes reviewing and challenging reports from other inspection agencies. Priority 2	There are already challenges in fitting the Council's schedule of Committee meetings, sub-committees and working groups into the calendar and it may therefore be more practical to identify part of the agenda of certain meetings for this purpose rather than have separate meetings.	Assistant Director Law and Administration (Corporate Services)	December 2010
17	155	We recommend that the Monitoring and Audit Committee agrees a work programme of areas it wishes to scrutinise over the year and in so doing follows the principles of good scrutiny. Priority 2	Agreed A draft work programme proposing areas for scrutiny will be presented to the Monitoring and Audit Committee.	Chief Executive	March 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
18	164	Whilst some training on Companies Act responsibilities was carried out in 2009 we would recommend that further specific training be given to councillors serving on boards to ensure they are clear on their legal responsibilities. Priority 2	Agreed A training session will be scheduled for councillors serving on boards to ensure they are clear on their legal responsibilities.	Assistant Director Law and Administration (Corporate Services) Director of Finance and Housing	March 2011
19	171	The Council should ensure that the register of interests for both elected members and chief officers is updated. Priority 2	Agreed	Assistant Director Law and Administration (Corporate Services)	December 2010

Appendix 2: Audit Adjustments

Orkney Islands Council	£'000
Net deficit for the year – per draft income and expenditure account	12,082
Being adjustment for depreciation and impairment of assets in year	1,683
Being inclusion of MNOPF provision in the financial statements	2,802
Adjusted deficit	16,567

Orkney Islands Council Group Accounts	£'000
Net deficit for the year – per draft group income and expenditure account	13,644
Being adjustment for depreciation and impairment of assets in year	1,683
Being inclusion of MNOPF provision in the financial statements	2,802
Being increase in provision – Orkney Towage (MNOPF provision)	807
Being reversal of 'transfer to/from reserves' to reflect group entity financial statements	1,316
Being adjustment to reflect FRS 17 entries in group entities financial statements	(965)
Adjusted deficit	19,287



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