

Comhairle nan Eilean Siar

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Comhairle nan Eilean Siar and the Controller of Audit
23 September 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

| | |
|--|----|
| Key messages | 4 |
| Introduction | 5 |
| Part 1 Audit of 2018/19 annual accounts | 7 |
| Part 2 Financial management | 11 |
| Part 3 Financial sustainability | 16 |
| Part 4 Governance and transparency | 18 |
| Part 5 Value for money | 24 |
| Appendix 1 Action plan 2018/19 | 28 |
| Appendix 2 Significant audit risks identified during planning | 32 |
| Appendix 3 Summary of national performance reports 2018/19 | 37 |

Key messages

2018/19 annual accounts

- 1 Comhairle nan Eilean Siar (the Comhairle) and its group financial statements were unqualified.
- 2 The pensions liability has increased by £2.5 million following decisions by the UK Supreme Court in June 2019

Financial management and financial sustainability

- 3 The 2018/19 budget gap of £5.5 million was to be met by savings of £3.9 million and the use of £1.6 million of general fund reserves. £2 million of the savings was to be met from the planned Service Redesign programme though the specific savings had not been identified at the time the budget was set.
- 4 Progress with service redesign savings has been mixed, with only £0.8 million achieved against a target of £2 million. The Comhairle will need to consider what alternative measures to implement where targets are not achieved
- 5 General fund reserves are reducing as they are used to support the budget.
- 6 The 2019/20 budget is based on service redesign plans of £2.5 million and £2.4 from reserves

Governance, transparency and value for money

- 7 Governance arrangements support decision making and accountability
- 8 The Comhairle has engaged with communities as part of service redesign.
- 9 Workforce planning to support service redesign is being developed
- 10 Restructuring is expected to lead to an improved organisational structure and realised savings for the Comhairle
- 11 The Western Isles Local Outcome Improvement Plan has clear outcomes and milestones, but there is limited reporting of progress against these
- 12 National Benchmarking shows areas of relatively poor performance with only 44% of indicators in the top two quartiles and 36% in the bottom quartile. Some of this performance may reflect the islands context and small scale.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Comhairle nan Eilean Siar and its group (the Comhairle).
2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 5 March 2019 meeting of the Audit & Scrutiny Committee. This report comprises the findings from:
 - an audit of the annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2018/19 have been:
 - an audit of the Comhairle and its group 2018/19 annual report and accounts including the issue of independent auditor's reports setting out our opinions
 - a review of the Comhairle's key financial systems
 - audit work covering the Comhairle's arrangements for securing best value relating to the four audit dimensions

Added value through the audit

4. We add value to the Comhairle through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
5. In so doing, we aim to help the Comhairle promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. The Comhairle has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Comhairle is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the effectiveness of the Comhairle's performance management arrangements, the suitability and effectiveness of corporate governance arrangements, and financial position the arrangements for securing financial sustainability and, best value. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
8. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.
10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £198,490 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
11. This report is addressed to both the Comhairle and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Comhairle nan Eilean Siar (the Comhairle) and its group financial statements were unqualified

The pensions liability has increased by £2.5 million following decisions by the UK Supreme Court in June 2019.

The Comhairle and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

The annual accounts received unqualified opinions

- 12.** The annual accounts for the Comhairle and its group for the year ended 31 March 2019 were approved by the Audit & Scrutiny Committee on 23 September 2019. We reported, within the independent auditor's report that the;
- financial statements give a true and fair view and were properly prepared
 - the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance
- 13.** We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Finance staff provided good support to the audit team

- 14.** We received the unaudited annual accounts on 27 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

No objections were received on the annual accounts

- 15.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Comhairle complied with the regulations and there were no objections to the accounts.

We identified and addressed risks of material misstatement

16. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.
17. Our materiality values were unchanged from our plans. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.
18. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

| Materiality level | Amount |
|-------------------------|---------------|
| Overall materiality | £1.7 million |
| Performance materiality | £0.85 million |
| Reporting threshold | £75,000 |

Source: Audit Scotland, Annual Audit Plan 2018/19

19. We report revisions to the pension liability following the McCloud judgement, the Remuneration Report to amend the exit packages disclosure, and to capital expenditure. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3 Significant findings from the audit of the financial statements

| Issue | Resolution |
|--|---|
| <p>1. Pension Fund Valuation adjustment</p> <p>The Comhairle accounts for its share of Highland Pension Fund in accordance with International Accounting Standard 19: Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary (Hymans Robertson). The actuary produced the IAS 19 report in April 2019 to inform the annual accounts.</p> | <p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendments resulted in an increase of £2.5 million (3.5%) of the pension liability of the Comhairle and £2.6 million of the group.</p> <p>Disclosure has also been added in note 42 – Events after the Reporting Period.</p> |

| Issue | Resolution |
|---|---|
| <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case. The UK Government sought leave to appeal this decision but in June 2019 the appeal was denied by the UK Supreme Court.</p> <p>The actuary, Hymans Robertson, produced revised (IAS19) reports for the council and its subsidiaries to take account of the impact of the McCloud case.</p> <p>This has affected all final salary pension schemes across the public sector.</p> | |
| <p>2. Capital expenditure adjustment</p> <p>Our audit of Comhairle expenditure in the year includes cut-off testing to ensure expenditure is accounted for in the correct financial year.</p> <p>We identified one payment with a value of £267,000 that was not posted to the ledger until 8 May 2019, but which related to capital expenditure in 2018/19 and had not been accrued in the financial statements.</p> | <p>The accounts were revised to account for the additional £267,000 capital expenditure.</p> <p>The impact of this adjustment was to increase both assets and liabilities on the Balance Sheet by £267,000. There was no overall impact on the net assets of the Comhairle.</p> |
| <p>3. Disclosure of exit packages of employees</p> <p>Our audit of the remuneration report identified one exit package disclosure for which the total disclosed did not include a payment in lieu of notice. We assessed that this payment constituted an ex-gratia payment and as such should be disclosed.</p> | <p>The Exit Packages of Employees disclosure in the remuneration report was revised to include the payment in lieu of notice.</p> |
| <p>Source: Audit Scotland</p> | |

All material adjustments have been made in the audited statements

- 20.** There was one adjustment to the unaudited financial statements that was material (by value). This was due to the requirement to revise the pension liabilities for the impact of the McCloud judgement detailed in Exhibit 3 above. We considered whether further audit procedures were necessary. In the case of the McCloud judgement we requested that the council obtain a revised IAS19 valuation from the actuary reflecting this judgement. We also encouraged group auditors to do the same for their audits. The estimate of the total effect was identified in the revised IAS 19 report.
- 21.** All individual misstatements which exceeded our reporting threshold have been amended in the audited annual accounts. It is our responsibility to request that all misstatements above the reporting threshold are corrected.

Data analytics enhanced audit procedures

- 22.** In 2018/19 we again used data analytics at the Comhairle as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as *“the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an audit for the purpose of planning and performing the audit”*. Such techniques provide ways of dealing with high volumes of

transactions as well as complexity. They also enhance audit quality and efficiency.

- 23.** Data analytics were used to replicate the Comhairle's ledger using transaction data and account structures provided by finance staff. This permitted us to gain assurance over opening and closing balances disclosed in the balance sheet and the gross expenditure disclosed in the Comprehensive Income and Expenditure Statement.
- 24.** Data analytics were used to identify manual journals posted to the ledger for audit review. These procedures were used to address our identified risk of management override of controls as set out in our 2018/19 Annual Audit Plan and reflect our planned audit work as agreed with management in our Plan.
- 25.** Our data analytic tool applies a series of judgements to 100% of the transactions posted in the year and ranks them according to risk. The judgements cover four areas; size, timing, nature and context. A sample of higher risk journals were discussed with finance staff and supporting evidence obtained. No significant issues were identified from our review of manual journal entries.

Prior year recommendations are being progressed

- 26.** The Comhairle has implemented only one of our prior year audit recommendations with the remaining two recommendations being progressed. For these, a revised response and timescale have been agreed with management and set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

The 2018/19 budget gap of £5.5 million was to be met by savings of £3.9 million and the use of £1.6 million of general fund reserves. £2 million of the savings was to be met from the planned Service Redesign programme though the specific savings had not been identified at the time the budget was set.

Progress with service redesign savings has been mixed with only £0.8 million achieved against a target of £2 million. The Comhairle will need to consider what alternative measures to implement where targets are not achieved. In some cases delays in realising saving have been offset by unspent contingencies.

General fund reserves are reducing as they are used to support the budget.

In the last two years, the capital programme has significantly slipped.

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

The 2018/19 budget gap of £5.5 million was to be met by savings of £3.9 million and the use of £1.6 million of general fund reserves.

27. In February 2018, the Comhairle set its 2018/19 budget. The forecast gap for 2018/19 was £6.3 million. A budget was struck that depended on loan charge savings of £1.2 million; 1% departmental efficiency savings of £0.7 million and target savings from Service Redesign of £2.0 million. This left a further £2.4 million to be funded from general fund balances earmarked to support the budget. This was later reduced to £1.6 million following late additional RSG funding of £0.8 million.

The details of Service Redesign savings were unidentified at the time the budget was set

28. The service redesign savings were assumed in the budget setting process, and detailed plans had not been developed to achieve these savings. The Comhairle recognised a need to deliver 25% of the savings through redesign in the budget.

The actual outturn for 2018/19 was a deficit of £2.1 million

29. The outturn achieved was a deficit of £2.1 million, which is a slightly worse outturn than the 1.6 million expected to be met by reserves in the original budget, but significantly better than the £4.4 million deficit reflected in the amended in-year budget (There was a significant increase in the Education and Children's services budget of £1.5 million and in Development of £1.2 million).

The Comhairle continues to underspend on areas that are not delegated to services.

30. A number of budgets, totalling £18 million, are not delegated to services. As well as interest and debt charges, this also includes “centrally held resources” which underspent by £1.2 million at the year end. These areas generally underspend each year (2018/19 £2 million, 2017/18 £1.7 million, 2016/17 £2.1 million) as they related to earmarked budgets that have not been spent. The Comhairle should examine whether any of these budgets are still required and could be returned to supplement balances.



Recommendation 1

Centrally held resources and contingencies should be reconsidered as part of the next budget setting process

Service redesign and savings targets are not being met, but are offset by unspent contingencies

31. £9.75million of service redesign savings were projected to be delivered in the 4-year period between 2018/19 and 2021/22. £2.0 million of these savings were planned for delivery in 2018/19.
32. During 2018/19 the Comhairle achieved only £0.8 million (40%) of its planned service redesign savings. However, this was offset by unspent central contingencies of £1.2 million, loan charge savings of £0.8 million and departmental underspends of £0.2 million (see paragraph 30).

Initial savings target from service redesign were optimistic

33. These savings from service redesign were achieved within the former Education and Children’s Services Department but from efficiencies generated from previous years rather than changes to service delivery in-year. Planned service redesign savings were not achieved within Economic Development, Properties, Waste & Cleansing Services and the Housing service. Delays in achieving savings suggest that the timescales for realising savings targets were too optimistic, and that service redesign will take longer to implement than initially anticipated.



Recommendation 2

The Comhairle should assess whether current service redesign savings targets are achievable and consider what alternative savings could be realised.

The Comhairle has a budget board and its operation has recently been reviewed

34. The Comhairle has a budget board, first established in June 2017, to oversee the implementation of the Comhairle’s Budget Strategy. A priority of the budget board is to ensure that there is early engagement with communities and partners to identify jointly agreed priorities that can feed into the budget setting process from the outset.
35. The board meets every 4-6 weeks and has a wide-ranging membership with representation from councillors of all 9 wards in the Western Isles. Members

routinely receive reports on the forward budget strategy and consider other finance reports and relevant papers such as those relating to service redesign.

36. Having operated for a two-year period, the budget board reviewed its remit in August 2019 to ensure it continues to provide added value to the budget setting process. The review identified that the budget board is working effectively in guiding the overall budget process; overseeing the financial aspects of the Service Redesign Programme; providing challenge to officers; and engaging with members.
37. The review further noted that the structure enables issues to be discussed among elected Members for each ward or party and for these to be fed back into the discussions at the Budget Board. For the past two years, however, amendments to the draft budget have been proposed by members without any prior discussions at the Budget Board. The review recommended that members may wish to consider if a formal process is needed to ensure members address all budget setting recommendations at the budget board prior to a budget being put forward for approval at Policy & Resources Committee.

Financial management and reporting is effective

38. Throughout the year financial performance was monitored by the Corporate Management Team (CMT) and through quarterly revenue and capital outturn reports presented to Policy & Resources Committee.
39. Each service also prepares quarterly performance reports for the relevant service committee. Accountability for underspends or overspends lies with the Head of Service. Performance reports explain the nature of variances against budget and report action being taken to address the variances reported.

The management commentary summarises the financial position

40. We have noted in previous annual audit reports that the financial outturn is clearly described in the management commentary and this continues with the original and revised budgets and outturn clearly shown and the reported position agreed to the Movement in Reserves Statement. This is in compliance with the expectations outlined in the Accounts Commission's Financial Overview Report in 2017/18. However, the progress of agreed saving plans/ efficiencies could be more clearly reported. The management commentary does state that planned service redesign savings of £0.756 million have been achieved and that savings of £2 million were assumed, but these are made separately and are not linked in the narrative.

General fund reserves have been reducing as they are used to support the budget

41. [Exhibit 4](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. A reliance on reserves to support the budget deficit has seen the balance drop from £23 million to £19 million.
42. The Comhairle reviews the level of its uncommitted reserves when setting the budget each year and is maintaining a minimum of £3.5 million in-line with policy.

Exhibit 4

Analysis of general fund over last five years



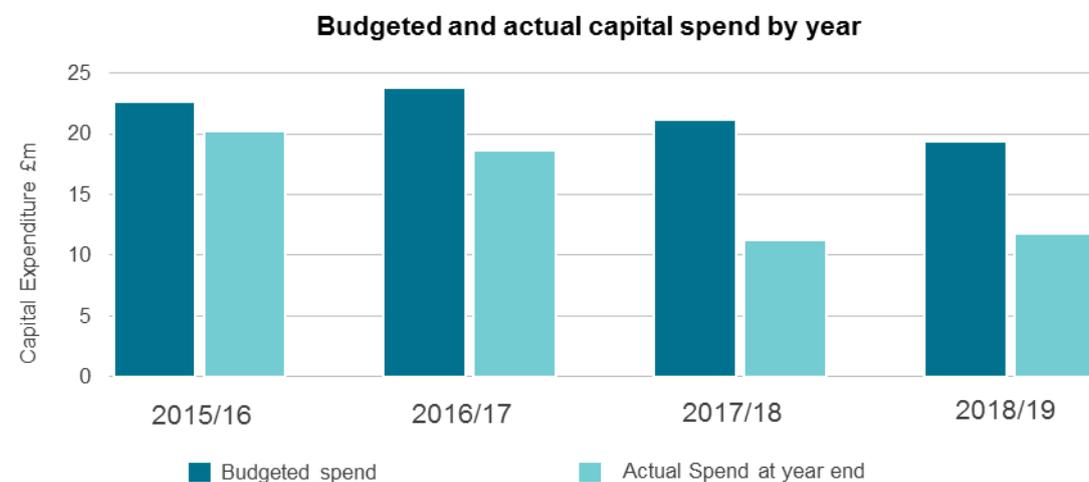
Source: Comhairle nan Eilean Siar Audited Annual Accounts

In the last two years, capital expenditure has been significantly less than planned

43. Exhibit 5 below illustrates planned capital expenditure each year since 2015/16 (as reported at the end of the first quarter) and the final out turn at each year-end. Underspending against the capital budget has increased significantly in the past two years. In 2017/18 and 2018/19 the Comhairle planned to spend £21m and £19m respectively. Actual spends were £11m and £12m. The view of the Director for Assets, Finance and Resources is that expenditure has been less than planned due to programme slippage.

Exhibit 5

Slippage in Capital expenditure 2015/16-2018/19



Source: Comhairle nan Eilean Siar reports

44. As a result of this, we will consider further audit work in 2019/20 to establish whether individual projects are being delivered on budget and on time and examine the reasons for any significant delays.

Financial System controls are operating satisfactorily in most areas and we undertook further work on user access and payroll overpayments

45. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Comhairle has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
46. Our findings were included in our management report that was presented to the Audit & Scrutiny Committee on 25 June 2019. We concluded that the key controls were operating effectively, but that we would be carrying out limited additional work relating to system access and payroll overpayments to former employees.
47. We reviewed a wider sample of the Comhairle's user access rights to debtors and creditors systems and the general ledger. In each case we concluded that the actual access awarded was appropriate. Officers have advised that finance staff are currently reviewing user access rights across the main financial systems.
48. The Comhairle has provided training to managers to encourage the timely reporting of leavers to payroll and to limit the risk of overpayments to former employees. Our additional audit work identified that the total number of reported overpayments had reduced slightly from 90 in 2017/18 to 80 in 2018/19. However, the total value of overpayments had decreased significantly from £118k in 2017/18 to £59k in 2018/19. For overpayments arising from departmental errors such as late reporting, the value of overpayments decreased from £83k to £38k. Although further improvement could be made, we do not consider the issues to be significant to our audit of the financial statements.

Part 3

Financial sustainability



Main judgements

The 2019/20 budget is based on service redesign of £2.5 million and £2.4 from reserves

Medium-term projections highlight the need to achieve increased savings from service redesign to mitigate the future use of reserves and it is looking doubtful whether all of these can be achieved

The Comhairle is pursuing charter agreements with other bodies

The Comhairle has a three-year financial plan and ten-year financial outlook

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

The 2019/20 budget is based on service redesign plans of £2.5 million and £2.4 from reserves

49. The Comhairle agreed its budget for 2019/20 in February 2019. The Comhairle's forecast budget gap for 2019/20 is £5.6 million, but this will be offset by 1% departmental efficiency savings of £0.7 million, target savings from Service Redesign of £2.5 million and £2.4 million to be funded from general fund balances earmarked to support the budget.

Increased savings from service redesign are required to mitigate the future use of reserves and it is looking doubtful whether all of these can be achieved.

50. The Comhairle's financial projections for 2020/21 and 2021/22 forecast funding gaps of £4.9 million and £7.2 million respectively (before service redesign savings are applied). If the Comhairle achieves service redesign savings of £4.7m in 2020/21 and a further £1.7m in 2021/22 as planned, the deficit to be met from reserves over the two-year period will be just under £1m.

51. There is a significant reliance on service redesign savings and use of balances in the current and following 2 years with an ambitious level of savings planned in 2020/21. The Comhairle's budget strategy is to use reserves to smooth out the transition through service redesign.

52. However, as noted at paragraph 33, the Comhairle has been unable to achieve the projected levels of service redesign savings in 2018/19 and the most recent budget board reports indicate that service redesign savings in 2019/20 will also be less than budgeted, placing additional pressure on reserve balances. Total planned service redesign savings to be achieved in 2019/20 have been revised down from £3.2 million to £2.5 million, with savings to be achieved in Waste and Cleansing Services (£1.0 million) and Transportation £1.1 million). So far, in 2019/20 only £0.1 million has been identified in waste and cleansing

services and £0.4 million in transportation service (arising primarily from new bus operator contracts and running reduced services). The full year effect of the bus contracts savings is estimated to be £1.3 million.

- 53.** At 31 March 2019, the Comhairle has a balance of £5.8 million committed to supporting the budget strategy. Based on the Comhairle's current financial projections 2020-30 and allowing for the achievement of all service redesign savings, these balances will be used up in five years, by 2023/24.

The Comhairle is pursuing charter agreements with other bodies

- 54.** Transformational change will be vital in delivering new efficiencies. The Comhairle is currently progressing a number of charter agreements with partners including Skills Development Scotland, Bord na Gaidhlig and Sports Scotland in moving towards a Single Islands Partnership model of working. These will allow partners to share services and pool resources in order to deliver savings.

The Comhairle has a three-year financial plan and ten-year financial outlook

- 55.** We noted in our Annual Audit Report last year that the Comhairle had a medium- and long-term financial plan. The long-term financial outlook to 2020-2030 was updated in February 2019 along with the budget papers and shows a range of potential scenarios for the Comhairle. This forecast makes a number of assumptions about future expenditure levels, including general inflation and pay inflation, and requires services to deliver 1% efficiencies each year until 2023. Assumptions over future income include decreases in the Revenue Support Grant and increases in Council Tax income. The 10-year forecast includes a range of upper estimates and lower estimates for each year to cover a range of scenarios.

Part 4

Governance and transparency



Main Judgements

Governance arrangements support decision making and accountability

The Comhairle has engaged with communities as part of service redesign

Workforce planning to support service redesign is being developed

Council restructuring is expected to realise net savings of around £0.3 million in total over the next 5 years

The Comhairle is to review standards of conduct using an Audit Scotland tool

Business Continuity arrangements should be reviewed and updated

The council has appropriate arrangements to assess the risk of key supplier dependency and is reasonably prepared for EU withdrawal

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

Governance arrangements support decision making and accountability

56. The current code of corporate governance was approved by the Audit & Scrutiny committee (A&S) in June 2019 and includes an action plan of activity to be undertaken during the year. The Code is updated annually and approved by the A&S committee.
57. In June 2019 a new governance framework for management teams was approved by the A&S committee. The Comhairle now operates with a Corporate Strategy Team (CST), a Corporate Planning Team (CPT) and the Transformational Change team.
58. The new governance arrangements allow CST to focus on the strategic direction of the Comhairle while the CPT, comprising Heads of Service, has responsibility for the operational aspects of service delivery.
59. The committee system has not changed significantly during 2018/19 and operates with clear roles for members and officers. Policy documents including the financial regulations, the scheme of delegation and standing orders set out roles and responsibilities. We attended a number of committee meetings during the year, including Audit and Scrutiny and Policy & Resources, and concluded that the papers presented by officers for member scrutiny were of a good standard with clear recommendations.

Attendance at member training is mixed

60. In our previous annual audit report, we noted a mixed level of attendance at training courses run for members. The 2019 training record shows a similar picture. In the current year most members have attended a number of training courses, typically between 4 and 7, although there are two instances of members not having attended any training and two cases of members only attending a single training course.

Registers of interest are still not up to date

61. In our 2017/18 Annual Audit Report we recommended that registers of interest were updated to remove former employees. We are satisfied that this was carried out during the year. However, we identified that for several senior members of staff there was no up-to-date register of interests held on file. Officers advised that work is ongoing to obtain outstanding registers of interest and two registers are currently outstanding.



Recommendation b/f 2

Senior officers should ensure that the register of interests is up to date.

The Comhairle has engaged with communities on service redesign

62. The Comhairle's approach to service redesign and transformational change is based on a model of community empowerment. Two rounds of meetings have taken place across the Western Isles to identify priorities for the Comhairle and opportunities where the community can participate in delivering savings.
63. A first round of community conversations was undertaken in November and December 2018, covering all wards. Meetings were chaired by elected members and typically lasted around two hours. The first 10 of 14 planned community meetings included around 300 participants from 70 community groups. The meetings considered redesign proposals across 16 service areas. Outcomes of the community conversation were reported to the December 2018 meeting of the Policy & resources committee. A second round of community engagement was undertaken in March and April 2019, with a further 14 meetings again covering all wards. Outcomes of the conversations were reported to Policy & Resources in June 2019.

Workforce planning to support service redesign is being developed

64. The Comhairle is in the process of updating its workforce plan to assess what skills and resources they currently have and going forward what they believe they will need. This is mapped across service and geographic location. A risk matrix will be used to identify those areas where services are or will be least equipped to progress transformation and identify plans to address this.
65. The Comhairle is also preparing a Managing Retirement plan to explore cost effective options that offer a fair early exit plan for employees.

Restructuring is expected to lead to an improved organisational structure and realised savings for the Comhairle

66. In 2018 the Comhairle implemented a new senior management structure, as agreed by the Policy and Resources Committee on 20 June 2018. This resulted in the revision and amalgamation of Heads of Service roles and made a number of posts redundant. Officers entered into negotiations to reach a

settlement with the postholders. The Director for Assets, Finance and Resources has advised that the management restructuring will save the Comhairle a net £0.3 million in total over the next 5 years and has established a structure to address the current needs of the Comhairle.

67. It is delegated to the Chief Executive to determine settlement for redundant posts taking account of the Comhairle's Policy on Early Retirement 2018. A core part of the policy is that the payback period for redundant posts will be no longer than 3 years, with the ability to, in exceptional circumstances, extend this up to 5 years.
68. The Comhairle incurred severance costs amounting to £261,455 arising from the restructuring. The payback period some of those costs was almost five years.
69. In order that members can be assured that expected savings arising from the restructuring have materialised, we consider that a detailed analysis should be undertaken to confirm the final position in actual terms and whether other expected benefits have been realised.



Recommendation 3

The Comhairle should review the organisational restructuring after its first year to confirm the level of savings realised and the benefits to the organisation.

There are appropriate standards of conduct for prevention and detection of fraud and error

70. The Comhairle has a range of established procedures for preventing and detecting fraud and irregularity including a Reporting Concerns at Work Whistleblowing Policy, an Internal Audit policy note and codes of conduct for members and officers.

Internal Audit investigated and reported on one case of councillor conduct during the year

71. In December 2018 councillors alerted the Deputy Monitoring officer that they had been contacted by an individual who had obtained exempt information that was to be discussed by the Policy & Resources Committee in private the following day. This was subsequently brought to the attention of Internal Audit who investigated the matter raised and this was reported to committee in September 2019.
72. Following this investigation, a Councillor admitted a breach of the Councillor's Code of Conduct and a breach of the Comhairle's IT Security Policy but denied disclosing exempt information. The Comhairle is to review standards of conduct.
73. In our 2017/18 Annual Audit Report, we offered to undertake a "Your Reputation @ Risk" (YR@R) survey to assess members' and staff's knowledge and understanding of expected levels of conduct. The survey has been set up and was ready to be launched in June 2019 by the Comhairle. However, the survey has not been published to staff or councillors via the intranet.



Recommendation b/f 2

The Comhairle should publish the YR@R survey to assess members' and staff's knowledge and understanding of expected conduct.

The council has made good progress in investigating National Fraud Initiative (NFI) matches, but a change in responsibility means that a self-assessment is overdue

74. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.
75. In 2018/19 responsibility for overseeing the NFI exercise within the Comhairle transferred from the former Head of Procurement & Exchequer Services to the Head of Finance & Exchequer Services due to organisational restructuring, with the loss of significant knowledge and experience.
76. The Comhairle has not yet reviewed the Audit Scotland NFI Self Appraisal Checklist issued in March 2018. In our The National Fraud Initiative in Scotland guidance issued in July 2018 we recommended that the checklist is reviewed by audit committees and those leading the NFI exercise. An NFI checklist was last reviewed by the Comhairle in 2016.



Recommendation 4

The Comhairle should use the NFI self-appraisal checklist to assess arrangements for participating in the current NFI exercise.

77. The 2018/19 exercise NFI activity is summarised in [Exhibit 6](#). The Comhairle received 939 matches and to date 298 cases have been cleared. No cases of fraud or error have been identified. The total number of matches includes over 500 that relate to creditors payments with same amount and reference. Many of these are monthly payments to the same contractors and don't carry significant risk,

Exhibit 6 NFI activity



939

Matches



298

Completed investigations



0

Fraud/errors identified

Source: As at 20 August 2019: NFI secure website: www.nfi.gov.uk

Business continuity arrangements are not fully developed

78. Our review of business continuity arrangements has identified that Business Continuity Plans (BCP's) are currently outdated and need to be refreshed. Business Impact Assessment templates have been prepared for use by Heads of Service to support risk assessments and inform service Business Continuity Plans. However there has been slow progress in the development of continuity

plans to date. Training for Heads of Service was originally scheduled for June 2019 but has also been delayed and is now planned for delivery in September 2019. Once service BCP's are in place, management plan to use these to identify the critical activities of the Comhairle and to inform a Corporate Business Continuity Plan.



Recommendation b/f 3

Business Continuity Plans should be reviewed and updated

There are appropriate arrangements to assess key supplier dependency

79. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or disruptions in the continued provision of vital services.
80. The Comhairle undertakes financial due diligence where it is considered appropriate to do so. At the point of tendering, a decision is made on whether a financial assessment will be required. This decision is made by the Procurement Steering group. Financial assessments are typically only carried out for large projects for example the building of a care home. For smaller procurement exercises basic company checks are considered sufficient.
81. Where the Comhairle has identified supplier risks, appropriate action is taken to mitigate the risk. Evidence of action being taken includes the front-ending of capital works where the future supplier availability is less certain or planned work may be more susceptible to future cost increases.

The council is prepared for EU withdrawal

82. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas - Workforce Funding and Regulation
83. In planning for EU withdrawal, the Comhairle has carried out an assessment of the potential impact in these areas. A Brexit readiness questionnaire was considered by the CMT and risks assessed as high, medium or low. EU withdrawal is part of a wider political change risk in the strategic risk register.
84. **Workforce.** The Comhairle employs around 1,300 full time equivalent employees, of which only around 30 are non-UK EU nationals. The Comhairle assesses potential impact on the workforce as low. Around a third of non-UK EU nationals employed by the Comhairle are, however, primarily in care service posts where the Comhairle has experienced some difficulty in filling vacancies.
85. **Funding.** The Comhairle recognises that EU withdrawal may have an impact on investment in the Outer Hebrides. The current EU funding runs until 2020. A delay on consultation on a 'shared prosperity fund' and limited communication means that local authorities are yet to find out what funding will be available, the criteria to be applied for funding and how decisions will be made after 2020. In 2018/19 the Comhairle received only £47k in revenue income from EU funds. However, the Comhairle expects to receive around £700k in European Structural Fund payments for 2018/19 and earlier years now that a suspension on funding applications has been lifted.
86. **Wider economic impact.** The risk of higher inflation and lower economic growth as a result of EU withdrawal. The Comhairle may become reliant on

current reserves to mitigate against the impact in the short term. This could place additional pressure on reserves already being used to support budgets during service redesign.

- 87. The supply chain.** The Comhairle has also considered the impact of EU withdrawal on the supply of goods and services. The Comhairle has been proactive in engaging with key suppliers of foods, medical supplies and fuel to obtain assurances over availability.
- 88. Impact on exports.** Work of the Brexit Planning group has identified additional challenges and mitigating action to be taken. The Comhairle currently issues around 200 Export Health Certificates (EHC's), mainly to the seafood industry, but projects that this could increase to around 8,000 in the event of a no-deal Brexit. Contingency plans have been explored to deal with this eventuality.

Part 5

Value for money



Main judgements

The Western Isles Local Outcome Improvement Plan has clear outcomes and milestones, but there is limited reporting of progress against these.

One Locality plan is still to be completed

Financial and operational performance is reported regularly to committee and performance information can be readily accessed by the public

National Benchmarking shows areas of relatively poor performance with only 44% in the top two quartiles and 36% in the bottom quartile

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

A Best value review will be undertaken in 2020/21

89. Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each local authority will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for the Comhairle is planned for year five in the five-year programme (2020/21).
90. The best value audit work carried out this year focussed on the Comhairle's arrangements for measuring impact on outcomes.

Local Outcome Improvement Plan has clear outcomes and milestones but there is limited reporting of progress.

91. The Western Isles Local Outcome Improvement Plan (LOIP) 2017-27 was approved by the Outer Hebrides Community Planning Partnership (OHCPP) in November 2017. Three overarching priorities for the OHCPP are identified in the plan; a sustainable population, sustainable economic growth, and improving the quality of life and wellbeing.
92. Each of these objectives is supported by 4 areas of planned activity in the LOIP and outcomes to evidence delivery. Outcomes are assessed against a series of measures for which a 2017 baseline is established and for which a 5 year and 10-year milestone target has been set. Most objectives have baseline measures although there are several where work is required to identify suitable baselines.
93. The OHCPP is required to publish an annual review. The first annual review was not published until March 2019 and therefore covers the first 18 months of the Plan. The annual review provides narrative about what has been achieved, such as identifying objectives and priorities and reporting on-going activity within the community, but contains limited information that directly measures progress towards the 5 and 10 year targets set out in the LOIP.

94. While the LOIP is still in its early stages of delivery, we would expect progress to be reported in more detail. This would permit the OHCPP to demonstrate where improvements are being delivered and provide assurance that activities undertaken are providing added value to communities.



Recommendation 5

The Comhairle should work with the OHCPP to extend reporting to include measurement against LOIP milestones

One locality plan is still to be completed

95. Locality Planning is part of the approach for communities which historically have experienced poorer outcomes due to socio economic disadvantage. The OHCPP has identified two areas, Benbecula and North Uist, and Stornoway West, where additional focused effort is required to improve outcomes. The OHCPP expected both locality plans to be finalised by August 2017.
96. The North Uist and Benbecula locality plan was approved in draft in September 2017 and a final version was issued in January 2018.
97. Progress with the Stornoway West Locality Plan has been slower. The OHCPP agreed to produce a Locality Plan for Stornoway West in May 2017. However, a draft locality plan has yet to be prepared with work currently progressing to identify improvements and priorities. The absence of a Development officer to support delivery of the Locality Plan has impacted on progress. However, we are advised that a Development Officer has recently been appointed



Recommendation 6

A locality plan for Stornoway West should be finalised.

The Comhairle is responding to the opportunities presented by the Islands (Scotland) Act

98. The Act requires relevant authorities to consider island communities in carrying out their functions. Relevant authorities must prepare an Island Communities Impact assessment (ICIA) for a policy, a strategy or a service which, in the authority's opinion, is likely to have an effect on an island community.
99. In preparing the National Islands Plan and to support the Scottish Government issuing guidance on impact assessments, Scottish Ministers were required to consult each Local Authority and undertook a consultation exercise. The Comhairle prepared responses to this consultation and this was approved by Policy & Resources in June 2019.
100. The Comhairle currently operates with 31 councillors across 9 wards. The Islands Act provided for additional flexibility to allow the Local Government Boundary Commission for Scotland (LGBCS) to establish Wards consisting of 1 or 2 Councillors. In May 2019 the Comhairle approved in principal to reduce the number of councillors from 31 to 28, across 11 restructured wards, including 5-2 member wards and a single 1-member ward.
101. In our 2017/18 AAR we noted that the Islands Deal is a joint proposal between the Comhairle and Orkney and Shetland isles councils. The deal aims to improve socio-economic outcomes for people who live and work on the islands. During 2018/19 meetings have been held with both Scottish

Government and UK Government Secretaries and Ministers and work continues towards announcement of a deal.

Performance is reported regularly to committee and the public

- 102.** Performance progress reports are prepared quarterly and submitted to the relevant committee for scrutiny. These provide operational performance information as well as reporting on financial performance.
- 103.** Performance reports clearly set out how a service is performing against its key performance indicators (KPI's). Indicators with targets are assessed as being “on track”, “monitoring required”, or “off track” using a traffic light system. Action plans to support delivery of these performance indicators identify the officer responsible for its delivery, current status, a planned completion date, progress being made, and further activity required.
- 104.** An annual Public Performance Report is prepared by the Comhairle’s Organisational Development team. This is published on the Comhairle’s website. The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service is available too on the website and provides a national overview of performance against strategic performance indicators.

The Comhairle has appropriate arrangements in place for collecting statutory performance indicators (SPIs)

- 105.** For 2018/19 the following two SPIs were prescribed:
- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
 - SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#).
- 106.** The Comhairle has an experienced Organisational Development team that is responsible for the preparation and reporting of performance reports. We identified that there was formal guidance, designated responsibility and a timetable to ensure that data was received, verified and reported in accordance with reporting timescales.

The Comhairle undertakes PSIF reviews

- 107.** The Comhairle carries out Public Service Improvement Framework (PSIF) self-assessments throughout the year. The Service Change and Improvement subcommittee approved a programme of assessments in April 2018 and reports covering *Leadership*, *People*, and *Processes and Services* were reported to meetings of the Audit & Scrutiny committee. The rolling programme of PSIF self-evaluations in the Local Code of Corporate Governance Action Plan 2019/20 will focus on “Best Value”.

National Benchmarking shows relatively poor performance for the Comhairle but this may reflect the islands context and small scale

- 108.** Exhibit 7 illustrates where the Comhairle ranks against other local authorities across a total of 75 statutory performance indicators. 44 per cent of the indicators placed the Comhairle in the top 2 quartiles, which is relatively low compared to other councils. In 36 per cent of the indicators, the Comhairle is in the bottom quartile. Some of this performance may reflect the islands context and small scale.

Exhibit 7**Local Government Benchmarking Framework 2017/18 – National rankings**

| Service | Indicators | 1 st Quartile | 2 nd Quartile | 3 rd Quartile | 4 th Quartile |
|------------------------------|------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Children's services* | 27 | 9 | 3 | 3 | 7 |
| Corporate services | 10 | 1 | 4 | 1 | 4 |
| Adult social care | 6 | 1 | 1 | 0 | 4 |
| Economic Development** | 10 | 3 | 3 | 1 | 3 |
| Culture and leisure services | 8 | 1 | 3 | 1 | 3 |
| Environmental services | 14 | 3 | 1 | 3 | 7 |
| Total 17/18 | 75 | 18 | 15 | 9 | 27 |

Source: Local Government Benchmarking Framework 2017/18 *5 indicators unavailable at time of writing ** 1 indicator unavailable at time of writing

109. There are positive results within this data. For example, 73% of secondary school children are achieving 5 or more awards at SCQF level 5 (compared to a Scottish average of 62%). The year on year performance also shows a steady level of improvement from 56% in 2011/12.

110. There are areas though which require further improvement:

- Only 38% of the highest paid Comhairle staff are women. This compares to a national average of 55%. The current gender pay gap for Comhairle staff is 13% and is the highest of any Scottish local authority. Both indicators do, however, show improvements over the 5 years to 2017/18.
- Satisfaction levels with local services have declined steadily in the past 5 years. Levels of satisfaction with local schools, libraries, parks and open spaces, museums and leisure facilities have all decreased in line with the national trend, but satisfaction levels with libraries, leisure facilities and local schools remain above the Scottish average.

National performance audit reports

111. During 2018/19, Audit Scotland published a number of reports that are of direct interest to the Comhairle. These are outlined in [Appendix 3](#)

112. These reports were generally not presented to committees of the Comhairle although most were considered by the Corporate Management team. Where appropriate, national reports are distributed to members out with the committee diet.

**Recommendation 7**

There is scope for the Comhairle to enhance its reporting of nationally published reports to relevant committees for members consideration.

Appendix 1

Action plan 2018/19

| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|--|--|
| 1 | <p>Centrally held budgets</p> <p>A number of budgets are not delegated to services totalling £18 million. As well as interest and debt charges, this also includes “centrally held resources” which underspent by £1.2 million at the year end. These areas generally underspend each year (2018/19 £2 million, 2017/18 £1.7 million, 2016/17 £2.1 million) and this may suggest that contingencies and centrally held budgets have been set too high.</p> | <p>Centrally held resources and contingencies should be reconsidered as part of the next budget setting process. Paragraph 30</p> | <p>A review of earmarked budgets will be carried out</p> <p>Head of Accountancy and Exchequer Services</p> <p>December 2019</p> |
| 2 | <p>Service redesign savings may not be achievable</p> <p>In 2018/19 the Comhairle achieved just over a third of the planned service redesign savings.</p> <p>Planned savings for 2019/20 look set to be significantly lower than budget.</p> <p>There is a risk that the Comhairle is unable to deliver the level of savings planned - resulting in further use of reserve balances.</p> | <p>The Comhairle should assess whether current service redesign savings targets are achievable and consider the impact this will have on reserves.</p> <p>Paragraph 33</p> | <p>The Budget Board and Comhairle will consider alternative savings proposals if the service redesign savings cannot be achieved</p> <p>Director of Assets, Finance and Resources</p> <p>February 2020</p> |

| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| 3 | <p>Restructuring</p> <p>Restructuring is expected to lead to an improved organisational structure and savings of £0.3 million for the Comhairle.</p> | <p>The Comhairle should review the organisational restructuring after its first year to confirm the level of savings realised and the benefits to the organisation.</p> <p>Paragraph 69</p> | <p>Agreed</p> <p>Chief Executive</p> <p>March 2020</p> |
| 4 | <p>NFI Self Appraisal Checklist</p> <p>The Audit Scotland NFI Self Appraisal Checklist was issued in March 2018 and subsequent guidance recommended that local authorities use the checklist to assess their arrangements for participating in the exercise.</p> <p>An NFI checklist was last reviewed by the Comhairle in 2016 and there is a risk that arrangements are not assessed/ reported to committee</p> | <p>Management should assess arrangements for participating in NFI exercises and report outcomes to committee.</p> <p>Paragraph 76</p> | <p>NFI arrangements will be reviewed.</p> <p>Head of Accountancy and Exchequer Services</p> <p>December 2019</p> |
| 5 | <p>Impact against milestones in the LOIP have not yet been measured.</p> <p>The OHCPP has identified outcomes as part of their 2017-27 plan and milestones over 5- and 10-years have also been set.</p> <p>There has been limited reporting of progress towards achievement of these milestones.</p> <p>Risk – the OHCPP not assessing the impact activity has had on improving outcomes for local communities.</p> | <p>Performance against milestones identified in the LOIP should be reported to permit the OHCPP to demonstrate where improvements are being delivered and provide assurance that activities undertaken are providing added values to communities.</p> <p>Paragraph 94</p> | <p>The Comhairle will review the reporting arrangements.</p> <p>Executive Head of Human Resources</p> <p>February 2020</p> |



Agreed management action/timing

| No. | Issue/risk | Recommendation | Agreed management action/timing |
|---|--|--|---|
| 6 | <p>Stornoway West Locality Plan progress</p> <p>Progress in delivering a Stornoway West Locality Plan that identified priorities and actions to improve outcomes has been slow.</p> <p>Risk – The OHCPP may fail to comply with statutory requirements and deliver improved outcomes in the Stornoway West area in the absence of a locality plan.</p> | <p>The OHCPP should ensure a locality plan for Stornoway West is developed to support delivery of improved outcomes in the area.</p> <p>Paragraph 97</p> | <p>The Comhairle will continue to support the NHS as lead agency for the OHCPP in finalising a development plan for Stornoway West.</p> <p>Principal Strategy Manager</p> <p>March 2020</p> |
| 7 | <p>National performance audit reports</p> <p>Appendix 3 to this report lists a number of national reports that may be of direct interest to the Comhairle members.</p> | <p>Management should consider submitting National performance audit reports to committees for members' information.</p> <p>Paragraph 112</p> | <p>The Comhairle will continue to disseminate National reports in the most appropriate way having regard to their content and relevance.</p> <p>Chief Executive</p> <p>As appropriate</p> |
| Follow up of prior year recommendations | | | |
| b/f 1 | <p>An Lantair investment</p> | <p>We recommend that the Comhairle review the accounting treatment in 2018/19 so that this can be held at the correct valuation going forward.</p> | <p>Complete</p> <p>An Lantair was reclassified as Property Plant and Equipment during the year and held on the balance sheet at year end based on its current market value.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-------|---|--|---|
| b/f 2 | Register of interests/ Your Reputation @ Risk | We believe there is scope to update these registers of interests to reflect current staff and member appointments. We also believe it is appropriate to further assess member and staff awareness and will consider running a Your Reputation @ Risk (YR@R) web-based survey during 2018/19. | <p>Ongoing</p> <p>The register of interests remains incomplete. Our year end testing subsequently identified several senior officers for whom no current register of interests is held on file.</p> <p>The Comhairle has not yet run our YR@R survey to assess member and staff's knowledge and understanding of expected conduct.</p> <p>The Comhairle will continue to remind officers of the need to register their interests and will decide whether to progress with the YR@R survey.</p> <p>Chief Executive December 2019</p> |
| b/f 3 | IT Risks | Continuing weaknesses in business continuity and disaster recovery procedures and documentation require to be addressed. | <p>Ongoing</p> <p>Our review of business continuity arrangements has identified that Business Continuity Plans (BCP's) are currently outdated and need to be refreshed and this should include cyber incidents</p> <p>Work is still ongoing in respect of IT risks that were first reported in our 2016/17 Annual Audit Report and raised again in 2017/18. A cyber resilience response plan is due to be considered by the Information Security Management Group and the Disaster Recovery plan is now drafted.</p> <p>Director of Assets, Finance and Resources March 2020</p> |

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|--|
| Risks of material misstatement in the financial statements | | |
| <p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p> | <ul style="list-style-type: none"> • Use of data analytics to carry out detailed testing of journal entries • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Review and assessment of accounting estimates. | <p>Testing of journals using data analytics was carried out and satisfactory explanations were obtained from officers for unusual journals identified.</p> <p>Testing of accruals and prepayments was carried out and no errors were identified.</p> <p>·</p> <p>Conclusion - No issues were identified that indicate management override of controls</p> |
| <p>2 Risk of fraud over income</p> <p>The Comhairle receives a significant amount of income from several sources including Scottish Government funding, taxation receipts and income from fees and charges.</p> <p>The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> | <ul style="list-style-type: none"> • Review of key controls within the financial systems including the debtors and cash and bank systems • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk. • Walkthrough testing of care income assessment process. | <p>Our review of key controls found no significant control weaknesses.</p> <p>Data analytics aided income sampling and subsequent substantive testing identified no errors in recorded income.</p> <p>Testing of the care income assessment process identified no significant control weaknesses.</p> <p>Conclusion - No issues identified.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|---|
| <p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. The Comhairle incurs significant expenditure in areas such as service provision, welfare benefits and grant funding and therefore there is an inherent risk of fraud.</p> | <ul style="list-style-type: none"> Review of key controls within the financial systems including creditors and payroll systems Detailed substantive testing of expenditure including staff costs, welfare payments and grants awarded | <p>Our review of key controls found no significant control weaknesses.</p> <p>Substantive testing of expenditure identified one error that was adjusted for in the annual accounts. Subsequent additional sampling found no further significant errors.</p> <p>Conclusion – Expenditure has been properly accounted for.</p> |
| <p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of fixed assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> | <ul style="list-style-type: none"> Assessment of the scope, independence and competence of the professionals engaged in providing estimates. Review appropriateness of actuarial results including comparison with other councils. Assessment of the appropriateness of the actuarial assumptions. Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. Review actual experience of significant estimates made at previous year end. Review officers' assessment of other significant accruals and provisions at the year end. | <p>Assessment of management experts found that there was appropriate independence, knowledge, and capacity to support estimates and judgements applied.</p> <p>Actuarial results were in line with similar local authorities and actuarial assumptions were considered reasonable and found to be within acceptable ranges.</p> <p>IAS19 valuations were carried out in April 2019 ensuring that there was no impact of movements in valuation before year end.</p> <p>Provisions were reviewed and considered appropriate.</p> <p>Conclusion – estimates and judgements are reasonable.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|--|
| <p>5 An Lanntair investment</p> <p>In 2005, the Comhairle invested £0.423 million in a building which cost over £4 million for a 20% pro indiviso share of the property. The accounting treatment has been consistent since 2005. The share is classified as an investment. The investment is valued at historic cost and is “depreciated” over 30 years.</p> <p>We believe that this treatment may be incorrect, as the Accounting Code of Practice identifies that if a property is held for development purposes then it should be classified as Property, Plant and Equipment and should be subject to periodic revaluation. However, the ownership may be contingent on a future event.</p> <p>There is a risk that the rights to the asset, valuation and classification are incorrect in the financial statements.</p> | <ul style="list-style-type: none"> • Review of the nature of the ownership including whether this is contingent on future events • Consideration of the appropriateness and basis of valuation. • Review of classification and disclosures associated with this transaction. | <p>An Lanntair was recategorised as Property Plant and Equipment during the year and held on the balance sheet at year end based on its current market value.</p> <p>Conclusion – An Lanntair is properly accounted for in the annual accounts.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| Risks identified from the auditor's wider responsibility under the Code of Audit Practice | | |
| <p>6 Financial sustainability</p> <p>Councils are continuing to face significant financial challenges through funding pressures and an increased demand for services.</p> <p>In February 2019 a budget for 2019/20 was set that included delivering £2.5m of savings through service redesign and the use of £2.4m of balance, earmarked to support the budget. The Comhairle has so far realised £0.8m of service redesign savings</p> <p>As reported in the Third Quarter Revenue Monitoring 2018/19 report, earmarked balances to support the budget are projected to decrease from over £4.4m to around £2.0m by the end of 2019/20.</p> <p>The financial projections set out in the 2019/20 budget papers indicate that, provided service redesign savings are achieved, balances will further reduce to £1m by the end of 2021/22</p> <p>Reliance on reserves to bridge budget gaps is unsustainable in the longer term. There is a risk that the Comhairle is unable to achieve the necessary sustainable savings measures through service redesign and other measures or meet cost pressures as they arise to sustain a prudent level of reserves.</p> | <ul style="list-style-type: none"> • Review budget monitoring reports and the financial position at the year end. • Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non-recurring savings. • Monitor planned use of reserves against actual. • Review of assumptions included | <p>Revenue outturn, capital outturn and budget strategy reports are regularly reported to members.</p> <p>The Comhairle only achieved £0.8m of the planned £2m savings in 2018/19 and savings targets in 2019/20 are unlikely to be met.</p> <p>General fund reserves decreased from £21.6m to £19.4m as balances were used to support the budget deficit and may decrease significantly if future service redesign savings are not achieved.</p> <p>At 31 March 2019, the Comhairle has a balance of £5.8 million committed to supporting the budget strategy. Based on the Comhairle's current financial projections 2020-30 and allowing for the achievement of all service redesign savings, these balances will be used up in five years, by 2023/24</p> <p>Conclusion – planned service redesign savings for 2019/20 – 2021/22 should be reassessed as referenced in Appendix 1 recommendation 2</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|---|
| <p>7 Cyber security arrangements</p> <p>The Comhairle considers that existing cyber defence measures are generally effective and in 2017/18 internal audit identified examples of good practice. However, the Comhairle has elected not to proceed with an application for Cyber Essentials accreditation and have engaged in discussions with the Scottish Government to determine how further improvements can be made.</p> <p>In our 2017/18 Annual Audit report we noted these on-going discussions and proposed to conduct a follow-up review during 2018/19.</p> | <ul style="list-style-type: none"> Review outcome of discussions between the Comhairle and the Scottish Government and the agreed actions to support cyber resilience Assess appropriateness of arrangements through comparison with other local authorities Review business continuity arrangements. | <p>We confirmed with the I.T Manager and obtained evidence that the Comhairle obtained both Cyber Essentials Plus and PSN accreditation.</p> <p>Business Continuity Plans are outdated and require revision.</p> <p>Conclusion – Business Continuity plans to be updated as referenced in Appendix 1 recommendation b/f 3.</p> |
| <p>8 EU Withdrawal</p> <p>There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.</p> <p>There is a risk that the council is not prepared for the impact of EU withdrawal on the delivery of services.</p> | <ul style="list-style-type: none"> Assess how the council has assessed and prepared for EU withdrawal, including workforce implications and dependency on key suppliers. Consider how the council responds to any emerging issues after March 2019. | <p>We confirmed that the Comhairle has taken appropriate action to assess the possible impact of EU withdrawal on its workforce, funding implications, and the supply of goods and services.</p> <p>Conclusion – the Comhairle has taken appropriate action to prepare for EU Withdrawal.</p> |
| <p>9 Dependency on key suppliers</p> <p>Dependency on a key supplier could expose the Comhairle to service delivery issues should the supplier fail. Where a significant supplier dependency exists, there should be monitoring and business continuity arrangements to ensure the Comhairle is able to respond to significant issues.</p> <p>There is a risk that the Comhairle is unable to deliver services if it is not aware of its key supplier dependencies and / or fails to have sufficient business continuity arrangements in place.</p> | <ul style="list-style-type: none"> Undertake work to establish the extent, value and nature of key supplier dependencies, including considering the Comhairle's work planning for EU withdrawal. Where issues are identified consider the robustness of the business monitoring and continuity arrangements in place. | <p>The Comhairle has identified its key suppliers and takes appropriate action to address supplier risks.</p> <p>Conclusion – Satisfactory</p> |

Appendix 3

Summary of national performance reports 2018/19

| | |  2018/19 Reports | |
|---|---|--|---|
| Local government in Scotland: Challenges and performance 2018 |  | Apr | |
| Councils' use of arm's-length organisations |  | May |  Scottish Fire and Rescue Service: an update |
| Scotland's colleges 2018 |  | Jun | |
| | | Jul |  The National Fraud Initiative in Scotland 2016/17 |
| Forth Replacement Crossing |  | Aug |  Major project and procurement lessons |
| Children and young people's mental health |  | Sept |  Superfast broadband for Scotland: further progress update |
| NHS in Scotland 2018 |  | Oct | |
| Health and social care integration: update on progress |  | Nov |  Local government in Scotland: Financial overview 2017/18 |
| | | Dec | |
| | | Jan | |
| | | Feb | |
| | | Mar |  Local government in Scotland: Challenges and performance 2019 |

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Council's use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Comhairle nan Eilean Siar

2018/19 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk