

Comhairle nan Eilean Siar

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Comhairle nan Eilean Siar and the Controller of Audit
26 September 2024

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts of Comhairle nan Eilean Siar and its group are unmodified but an 'emphasis of matter' paragraph and a 'matter reported by exception' highlight the November 2023 cyber-attack's impact on the Comhairle's accounting records.
- 2 Material adjustments were made to the annual accounts as a result of the audit process. The triennial valuation of the pension fund was made available prior to completion of the audit, and this resulted in a change to the pension valuation.

Financial management and sustainability

- 3 Comhairle nan Eilean Siar reported an outturn deficit of £1.7 million in 2022/23 after the allocation of additional resources during the year. The Comhairle faces financial challenges through inflationary pressures on pay and non-pay costs, and demand on services.
- 4 Comhairle nan Eilean Siar had appropriate budget setting and monitoring arrangements in place with regular reports provided to the Policy and Resources Committee.
- 5 Comhairle nan Eilean Siar had adequate financial control arrangements in place during 2022/23 and standards for the prevention and detection of fraud remained largely appropriate.
- 6 Comhairle nan Eilean Siar did not implement previously agreed improvements in IT, cyber security and business continuity arrangements. Further IT weaknesses were identified during the audit.
- 7 The cyber-attack resulted in loss of systems and the use of interim 'work arounds' to ensure continuity of service.
- 8 Comhairle nan Eilean Siar should develop and implement a medium-term financial strategy to plan the use of its resources to deliver sustainable services into the medium term.

Best Value

- 9 Comhairle nan Eilean Siar has set a wide-ranging vision for the area based on local need. It needs to identify clearer strategic priorities to focus action as

it develops its new corporate strategy. The Comhairle and its partners have not yet started their planned update of the Local Outcomes Improvement Plan.

- 10** Elected members show a close understanding of their communities and work well together but need a stronger focus on strategic issues.
- 11** Climate change is a prominent focus in the priorities of the Comhairle and the Outer Hebrides Community Planning Partnership (OHCPP). The Islands Deal has a strong focus on renewable energy opportunities. The Comhairle has recently approved a new climate strategy.
- 12** Comhairle nan Eilean Siar's focus on inequalities is primarily on reducing poverty including the cost of living and fuel poverty. This activity is supported by the OHCPP's poverty working group, financial inclusion officers and community learning and development officers.

Vision, leadership and governance

- 13** Comhairle nan Eilean Siar had appropriate governance arrangements in place during 2022/23 but there is scope to strengthen scrutiny arrangements.
- 14** Comhairle nan Eilean Siar focused on open and transparent communication and decision making immediately following the cyber-attack.

Use of resources to improve outcomes

- 15** Comhairle nan Eilean Siar had arrangements in place for collecting, recording, and publishing statutory performance information which complies with the Statutory Performance Direction.
- 16** Comhairle nan Eilean Siar should ensure that its revised corporate strategy and strategic plans are consistent and identify clear priorities to target its activities.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Comhairle nan Eilean Siar (the Comhairle) and its group. The scope of the audit was set out in an annual audit plan presented to the 26 April 2023 meeting of the Audit and Scrutiny Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Comhairle nan Eilean Siar's annual accounts
- conclusions on the Comhairle's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice 2021*](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to Comhairle nan Eilean Siar and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. The 2022/23 financial year was the first of a five-year audit appointment from 2022/23 until 2026/27. This appointment coincides with the new [*Code of Audit Practice*](#) which was introduced for financial years commencing on or after 1 April 2022. Audit Director Rachel Browne was appointed by the Accounts Commission as auditor of Comhairle nan Eilean Siar for the period from 2022/23 until 2026/27. Following another Audit Director's recent retirement, the Accounts Commission has updated several audit appointments including Comhairle nan Eilean Siar. Claire Gardiner, Audit Director, will be the appointed auditor of the Comhairle from 2023/24 to 2026/27.

4. We would like to thank councillors, Audit and Scrutiny committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Comhairle nan Eilean Siar 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 and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. 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 of Comhairle nan Eilean Siar from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. 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. We carried out additional 2022/23 audit work following the November 2023 cyber-attack to assess the impact on our audit opinion of the Comhairle's loss of access to financial and other systems. The 2022/23 audit fee of £239,670 as set out in our 2022/23 Annual Audit Plan is therefore increased to £249,670. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to Comhairle nan Eilean Siar by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the financial statements of the Comhairle and its group are unmodified but an 'emphasis of matter' paragraph and a 'matter reported by exception' highlight the impact of the November 2023 cyber-attack on the Comhairle's accounting records.

Material adjustments have been made to the annual accounts as a result of the audit process. The triennial valuation of the pension fund was made available prior to completion of the audit, and this resulted in a change to the pension valuation.

Audit opinions on the financial statements of Comhairle nan Eilean Siar and its group are unmodified but the impact of the November 2023 cyber-attack on the Comhairle's accounting records is highlighted in an 'emphasis of matter' paragraph and a 'matter reported by exception'.

11. The council approved the annual accounts for Comhairle nan Eilean Siar and its group for the year ended 31 March 2023 on 26 September 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

12. We have included an 'emphasis of matter' paragraph in the independent auditor's report to draw attention to the disclosure on the impact of a cyber-attack on Comhairle nan Eilean Siar which caused loss of data and systems.

The audit opinion on the financial statements is not modified by this emphasis of matter paragraph.

13. The cyber-attack prevented Comhairle nan Eilean Siar from accessing the financial systems which form the accounting records. This means that Comhairle nan Eilean Siar has not had access to its full accounting records since November 2023. The loss of access to accounting records is a matter on which we are required to report by exception in the independent auditor's report.

Overall materiality was assessed as £4.6 million

14. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

15. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£4.60 million
Performance materiality	£3.45 million
Reporting threshold	£0.23 million

Source: Audit Scotland

16. The overall materiality threshold for the audit of the annual accounts of Comhairle nan Eilean Siar was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

17. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting a history of a low number of errors or significant issues.

18. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

19. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the body's accounting practices.

20. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. Significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Events after the reporting period: cyber-attack</p> <p>As disclosed in Note 43 to the annual accounts, the Comhairle suffered a cyber-attack on 7 November 2023 (after the reporting period), following which data stored on operational and back-up servers is inaccessible. The loss of data and systems includes the financial systems, which form part of the Comhairle's accounting records.</p>	<p>The audited annual accounts have been revised to reflect this event.</p> <p>Audit opinions on the financial statements of the Comhairle and its group are unmodified but an 'emphasis of matter' paragraph and a 'matter reported by exception' highlight the impact of the November 2023 cyber-attack on the Comhairle's accounting records.</p>
<p>2. Events after the reporting period: triennial funding valuation</p> <p>The triennial funding valuation of the Highland Pension Fund as at 31 March 2023 became publicly available before the 2022/23 annual accounts were signed off. This valuation was based on more recent membership data than the IAS 19 actuarial valuation (which was based on rolled-forward membership data from the previous triennial valuation) and thus provided more reliable information.</p> <p>As this event was considered likely to result in a material change in the Comhairle's pension asset valuation, the Comhairle obtained a revised actuarial valuation report. The revised valuation indicated a material change in the Comhairle's pension asset value.</p>	<p>The audited annual accounts have been revised to reflect this event.</p> <p>We concluded that the Comhairle's accounting treatment of the revised pension asset was correct, and disclosure of this post balance sheet event was appropriate.</p>

Issue	Resolution
<p>3. Accounting treatment of pension asset</p> <p>For the first time, the unaudited accounts included a net pension asset of £8 million in the Balance Sheet rather than a liability, as in previous years.</p> <p>The pension asset was calculated in the IAS 19 report received from the actuary in April 2023 for preparation of the unaudited accounts. The council applied an asset ceiling which restricted the pension asset in the Balance Sheet.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>As reported at no. 2 above, following the triennial funding valuation of the Highland Pension Fund as at 31 March 2023, a revised IAS19 actuarial valuation of the Comhairle's share of the pension asset was obtained by management. The revised asset ceiling was higher than the revised pension asset, so no asset ceiling restriction has been applied.</p> <p>The results of the revised valuation have been included in the accounts and this increased the value of the net pension asset within the Balance Sheet to £41 million, an increase of £33 million.</p>	<p>We reviewed the actuary's assumptions and Comhairle nan Eilean Siar's assessment of the actuary's assumptions and calculation in conjunction with IAS 19 and IFRIC 14.</p> <p>Management included additional disclosures in the audited annual accounts to clearly show the effect of the actuarial valuation.</p> <p>We concluded that the approach to recognising a pension asset in the accounts was appropriate.</p>
<p>4. Accounting treatment of difference between market value and fair value of soft loan</p> <p>We identified that the difference between the fair value and the market value of a soft loan issued to</p>	<p>Management corrected this misstatement in the audited financial statements.</p>

Issue	Resolution
<p>Stornoway Port Authority in the year was included within Provisions.</p> <p>The difference between a soft loan's fair value and the money that was lent, should be charged to the surplus or deficit on the provision of services, and treated as a creditor not a provision. This was a classification error which did not affect the Net Assets in the Balance Sheet, but overstated long-term Provisions and understated short-term Creditors by £2.522 million respectively.</p>	
<p>5. Transfers between reserves permitted by accounting standards</p> <p>Local Authority Scotland Accounts Advisory Committee (LASAAC) guidance now requires depreciation on an asset's revalued element to be transferred from the Revaluation Reserve to the General Fund. The unaudited accounts included a transfer of £2.509 million depreciation from the Revaluation Reserve to the Capital Adjustment Account. This treatment followed the previous guidance and is no longer permitted.</p> <p>This only affected Note 22 'Unusable reserves' and did not change the balances disclosed in the Movement in Reserves Statement or the Balance Sheet.</p>	<p>Management corrected this misstatement in the audited financial statements.</p>
<p>6. Income posted to the wrong financial year</p> <p>A delay in updating the system parameters within the debtors ledger caused income received in period 1 of 2023/24 to be posted to period 13 of 2022/23. The affected transactions were identified by the reconciliation control. The mis-posting overstated cash and cash equivalents and understated short-term debtors by £1.412 million respectively.</p>	<p>Management corrected this misstatement in the audited financial statements.</p>
<p>7. Classification error: community buy-out loans due to be repaid within one year</p> <p>We identified several loans that were due to be repaid in 2023/24 and thus should have been classified as short-term debtors and not long-term debtors. This understated short-term debtors and overstated long-term debtors by £0.490 million respectively.</p>	<p>Management corrected this misstatement in the audited financial statements.</p>

Issue	Resolution
<p>8. Accounting treatment of expected credit loss</p> <p>For investments classified at amortised cost, the credit loss should be netted off the carrying amount of the investment in the Balance Sheet. Our testing identified £0.277 million of expected credit losses which were not netted off against the long-term debtor but included as a credit balance in short-term debtors.</p> <p>This understated short-term debtors and overstated long-term debtors by £0.277 million respectively.</p>	<p>Management corrected this misstatement in the audited financial statements.</p>

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual accounts

21. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing 	<ul style="list-style-type: none"> We have assessed the design of key controls over journal processing. Enquiries made of relevant individuals about inappropriate or unusual activity relating to processing of journal entries and other adjustments. Officers involved in financial reporting processes did not identify any unusual activity. Our data analytics-based approach to journal testing ensured that we considered those journals that appeared

Audit risk	Assurance procedure	Results and conclusions
	<p>entries and focus on significant risk areas.</p> <ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Conduct substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Carry out focussed testing of accounting accruals and prepayments. 	<p>unusual. No inappropriate journals were identified.</p> <ul style="list-style-type: none"> • A sample of journal entries processed were reviewed. The journals testing covered entries through the year, at year end and post-closing, with focus on risk areas. No issues were identified. • There were no significant transactions identified which were outside the normal course of business during our audit testing. • We reviewed management's estimates and accounting policies, no issues were identified. • We reviewed the processes regarding identification and disclosure of related parties. No issues identified. • We tested a sample of income and expenditure transactions around the year end and assurance was gained that these were being accounted for in the correct financial year. • We tested a sample of accruals and prepayments. No issues were identified. <p>Conclusion: We did not identify any incidents of management override of controls.</p>

Source: Audit Scotland

22. In addition, we identified three areas of audit focus in our 2022/23 Annual Audit Plan where we considered there to be non-significant risks of material misstatement to the financial statements. These areas were the valuation of pension liability; valuation of property, plant and equipment; and IT risks.

23. Valuation of Pension Liability: This is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.

The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. We assessed the scope, independence and competence of the professionals engaged in providing estimates for pensions and reviewed the appropriateness of the actuarial assumptions and results including comparison with other councils. We also confirmed the arrangements for ensuring the reasonableness of the professional estimations and the accuracy of information provided to the actuary by the Comhairle. As reported in [Exhibit 2](#), the actuary calculated a pension asset as at 31 March 2023, rather than a liability. The impact of the triennial funding valuation of Highland Pension Fund as at 31 March 2023 was adjusted in the annual accounts.

24. Valuation of Property, Plant and Equipment (PPE): The value of PPE held by the Comhairle as at 31 March 2022 was approximately £346 million. Due to the level of complexity and judgement in the estimated valuations, there is an inherent risk of material misstatement in these valuations. We assessed the scope, independence and competence of the professionals engaged in providing the valuation in 2022/23 and considered the appropriateness of the information provided by management to the valuers. We also assessed the council's assessment of those assets not valued in this year. No issues were identified in relation to the competence, capabilities, and objectivity of the professional valuer. The information provided to the external valuer was found to be complete and accurate. Land and buildings scheduled to be revalued as part of the rolling programme were subject to revaluation in 22/23. For land and buildings not fully revalued in 22/23, the valuer provided desktop revaluation based on BCIS indices to bring the carrying value of these assets to a fair value. Our audit procedures identified no errors or other accounting treatment that would indicate a misstatement in the valuation of PPE as at 31 March 2023.

25. IT risks: Under the revised ISA (International Standards on Auditing) 315 we are required to have a greater understanding of the systems and risk arising from the use of IT systems. Our work concluded that IT related risks did not create a risk of material misstatement in the financial statements. However, we have reported the lack of progress in implementing improvements to the IT control environment and cyber security arrangements (see [paragraph 65](#)).

The council applied the permitted statutory overrides in its accounting for infrastructure assets

26. Across the UK, a technical accounting issue was identified last year covering infrastructure assets. Two temporary statutory overrides have been permitted for the 2021/22, 2022/23 and 2023/24 financial years. Infrastructure assets typically include roads, footpaths, bridges and culverts and are included at depreciated historical cost in the financial statements. A replaced component of an asset has to be derecognised and council records of additions do not permit compliance with the accounting code. A failure to derecognise assets correctly results in potential double-counting and an overstatement of the gross book value, accumulated depreciation and net book value of the assets.

27. In 2021/22, CIPFA/LASAAC considered the matter and proposed amendments to the accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £ nil and a

temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government issued Local government finance circular 09/2022 to implement these changes.

28. Comhairle nan Eilean Siar considered the detailed records available to support infrastructure additions and concluded that the above statutory overrides were required and amended the infrastructure disclosures in the audited accounts. The Comhairle continued to apply both the statutory overrides in its 2022/23 annual accounts.

29. This temporary override is applicable up to 31 March 2025, and is provided as an isolated measure in recognition of the potential seriousness for local authorities. In future it is expected that the Code will deliver amendments that adequately reflect the public sector context.

There was one non-material misstatement identified within the financial statements

30. We identified one misstatement of £0.6 million which was not corrected by management in the audited accounts.

31. As noted at [paragraph 20](#) above, some of the Comhairle's operational assets were not scheduled for revaluation in 2022/23, but the Comhairle has reflected fair value of these assets at 31 March 2023 following a desktop exercise.

32. The Comhairle elected to revalue all assets with a carrying value of £1.0 million and above and this resulted in an upwards revaluation of £6.3 million. As assets below £1.0 million were excluded, we calculated the effect of applying this de-minimis. The impact of making an adjustment for this misstatement would be to increase the carrying value of land and buildings by £0.6 million.

33. Management have not adjusted this misstatement in the accounts as they consider it impractical to process revaluations entries on all assets.

34. Total misstatements of £0.6 million did not breach our performance materiality threshold of £3.45 million. We did not therefore carry out additional audit procedures. We have reviewed the nature and cause of this misstatement and have concluded that it arose from issues that are isolated and identified in their entirety and do not indicate further systemic error.

The unaudited annual accounts were received in line with the agreed audit timetable

35. The unaudited annual accounts were received in line with our agreed audit timetable of 30 June 2023. Audit completion was planned for November 2023 as set out in our Annual Audit Plan. This is later than the 30 September target date for local government audit completion and the statutory requirement for councils to publish audited accounts by 31 October. It reflects both the ongoing impact of having to pause audit work at the start of the Covid-19 pandemic and audit staffing shortages, which we are addressing through recruitment and a

multi-year prioritised programme of audit recovery. Following the cyber-attack in November 2023 and the Comhairle's loss of access to its accounting records we considered the impact on our audit opinion. This delayed the conclusion of the audit.

36. The working papers provided with the unaudited accounts were of a good standard and council officers provided support to the audit team during the audit.

Progress was made on prior year recommendations, but this did not include improvements in cyber resilience and business continuity

37. The Comhairle has made some progress in implementing the audit recommendations identified by the previous external auditor (also Audit Scotland). Four of the seven recommendations carried forward from last year are considered to have been completed, with one remaining in progress and two outstanding. No progress was made in addressing our recommendations for improvement in cyber resilience and business continuity planning, largely due to IT staffing vacancies.

38. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The Comhairle reported an outturn deficit of £1.7 million, after the allocation of additional resources during the year. The Comhairle faces financial challenges through inflationary pressures on pay and non-pay costs, and demand on services.

The Comhairle had appropriate budget setting and monitoring arrangements in place with regular reports provided to the Policy and Resources Committee.

The Comhairle had adequate financial control arrangements in place during 2022/23 and standards for the prevention and detection of fraud remained largely appropriate.

The Comhairle did not implement previously agreed improvements in IT, cyber security and business continuity arrangements. Further IT weaknesses were identified during the audit.

The cyber-attack resulted in loss of systems and the use of interim 'work arounds' to ensure continuity of service.

The Comhairle reported a deficit for 2022/23

39. The Comhairle approved its 2022/23 budget in February 2022. The budget was set at £112 million and included planned savings of £1.4 million, with a deficit of £0.5 million to be met from reserves.

40. Over the course of the year the Comhairle received an additional revenue support of £3.9 million in redeterminations from the Scottish Government in 2022/23, resulting in a final budget of £116 million.

41. The Comhairle revised its financial position during the year and the final budget was revised with £3.5 million of additional resource added to service budgets, primarily reflecting Covid funding not applied to the initial approved budget. As at 31 March 2023 the Comhairle reported a final general fund deficit of £1.7 million (1.5% of the £116 million budget).

42. These budget figures are those used in council reports for decision making. Councils raise taxation and rents to cover expenditure in accordance with statutory requirements, which may be different from the accounting cost. The £19.3 million deficit on provision of services in the annual accounts' Comprehensive Income and Expenditure Statement reflects the accounting cost of providing services in line with the relevant accounting framework.

43. The more significant under and overspends against budget are summarised in [Exhibit 5](#).

Exhibit 5

Summary of significant under/overspends against budget

Area	£m	Reason for variance
Underspends		
Education, Skills and Children's Services	1.5	Largely relates to lower than anticipated costs in the Head of Education and Head of Children's Services due to staff vacancies
Investment and other interest income	1.2	Additional income received due to increase in interest rates
Overspends		
Depute Chief Executive	0.5	Higher than anticipated winter maintenance costs and variances across service areas
Additional Resources transferred to Services/Reserves	3.5	Movement of earmarked reserves added to department budgets. Significant variances included higher than budgeted wage settlements, utilities and fuel costs.

Source: Comhairle nan Eilean Siar 2022/23 Annual Accounts

Budget setting and monitoring processes were appropriate

44. We observed that senior management and members received regular and accurate financial information on the body's performance against budgets. We concluded that the Comhairle had appropriate budget setting and monitoring arrangements.

45. Quarterly performance reports including financial performance information, and revenue outturn reports, providing an overview of the Comhairle's

performance against budget, is presented to the Policy and Resources Committee.

46. The draft year-end outturn report was presented to committee members in June 2023. We noted that the final outturn was then revised as part of adjustments to the unaudited annual accounts.

General Fund reserves reduced but remained above pre-pandemic levels

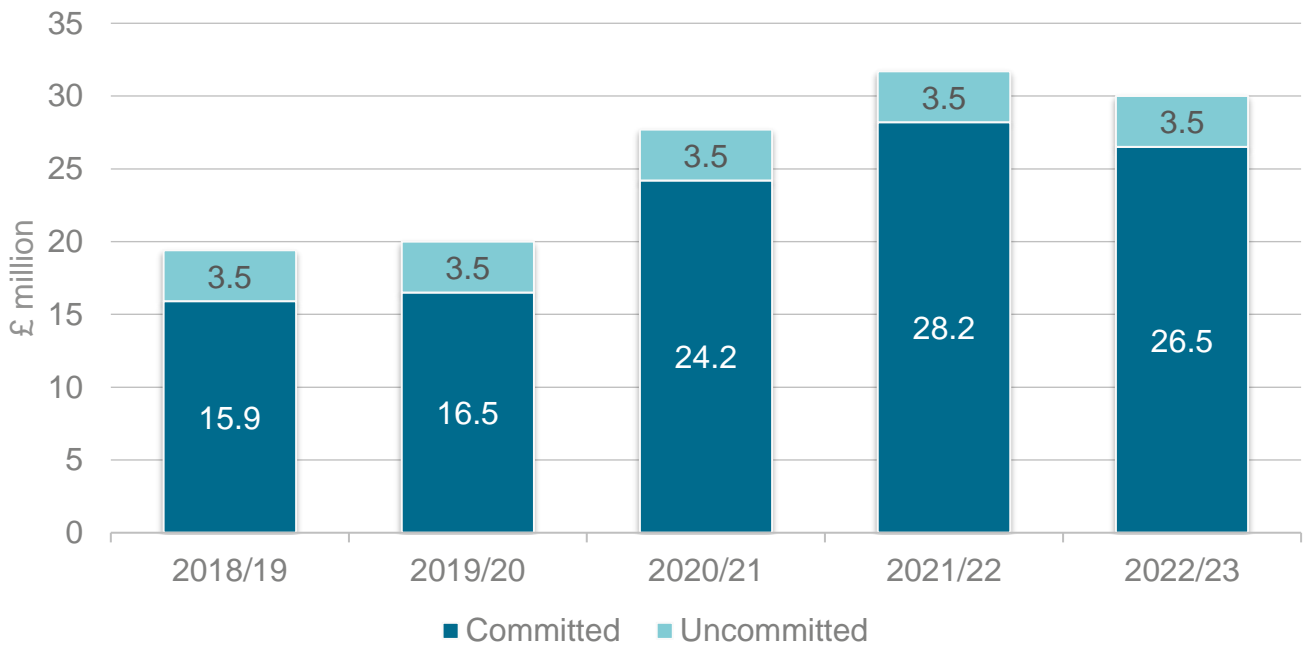
47. One of the key measures of the financial health of a body is the level of reserves held. The level of General Fund reserves held by the Comhairle decreased from £31.7 million in 2021/22 to £30.0 million in 2022/23.

48. General Fund balances had previously increased in each of the past four years due to late additional funding received and departmental underspends. The reduction in General Fund is due to the use of carried forward Covid support funds and the planned use of reserves to balance the budget.

49. The Comhairle retains a policy of having a minimum £3.5 million of uncommitted reserves, with any additional balances that are not already earmarked being allocated to support the forward budget strategy.

50. [Exhibit 6](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. The significant increase in committed reserves in 2020/21 aligned with the impact of Covid-19 and the increased funding provided by the Scottish Government late in March 2020, leading to a significant increase in reserves. This trend continued through 2021/22 and while it levelled out in 2022/23 the levels of committed reserves remain significantly higher than pre-pandemic levels.

Exhibit 6 Analysis of General Fund balance



Source: Comhairle nan Eilean Siar 2022/23 Annual Accounts

Planned efficiency savings of £1.2 million (86%) were achieved

51. The 2022/23 budget included planned savings and contributions from reserves to address the budgeted funding gap. The Comhairle identified £1.4 million of savings for 2022/23, comprising £0.9 million of business plan savings agreed in 2021/22, and a further £0.5 million of new saving proposals.

52. The Comhairle achieved actual savings of £1.2 million (86% of this total). Unachieved savings of £0.2m were funded from earmarked contingency general fund reserves and are targeted to be achieved in 23/24. Planned savings were predominantly made through service redesign on a recurring basis. Recurring savings are savings that once achieved recur year-on-year from that date.

The capital programme continued to underspend in 2022/23

53. Total capital expenditure in 2022/23 was £28.9 million, £8.3 million lower than the planned spend of £37.2 million for the 22/23 capital programme. Capital expenditure in 2022/23 was £0.2 million higher than the £28.7 million spend in 2021/22, which was £9.7 million less than planned.

54. The final outturn of the 2018-23 Capital Programme detailed capital projects in progress, or committed, totalling £28.2m. In June 2023 the Comhairle approved the carry forward of these projects as part of its 2023-28 capital programme. Significant areas of this planned spend include the Barra &

Vatersay facilities (£7.4m), Cnoc Soilleir (£2.75m), Scalpay Bridge (£2.4m), and Lochmaddy Pier Improvements (£2.2m).

Borrowing levels remained relatively static

55. At 31 March 2023, long term borrowing stood at £127.4 million, a decrease of £3.1 million on the 2022 level of £130.5 million. During the same period, short term borrowing increased from £4.3 million to £4.7 million. There was no new borrowing undertaken during the year. Capital expenditure was funded by capital grant and other capital contributions and receipts.

56. Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy.

The Comhairle had adequate financial control arrangements in place during 2022/23

57. Our review of the main financial systems which support the preparation of the annual accounts concluded that the internal financial controls operating during 2022/23 were appropriate. Internal audit's opinion in their 2022/23 annual report was that "reasonable assurance can be placed on the adequacy and effectiveness of the Comhairle's systems of governance, risk management and internal control".

The cyber-attack resulted in loss of systems and the use of interim 'work arounds' to ensure continuity of service

58. As reported in section 1, the Comhairle suffered a cyber-attack in November 2023 which encrypted many council systems and backups, denying access to those systems. This included the general ledger and other accounting records. The audit opinions on the 2022/23 financial statements of Comhairle nan Eilean Siar and its group are unmodified as we obtained sufficient evidence to support our audit opinion, but the impact of the November 2023 cyber-attack on the Comhairle's systems is significant, with some systems needing to be rebuilt entirely as backups are not accessible. This is taking substantial resource to implement and places considerable pressure on staff over a sustained period.

59. Immediately after the cyber-attack, the Comhairle focused on front line service continuity and communicating with staff, service users, suppliers and the local community. Support was provided by the National Cyber Security Centre, the Scottish Government and Police Scotland. The Incident Management Team (IMT) met daily to assess the situation and prioritise recovery actions. IMT meetings became less frequent over time, as recovery actions were being implemented.

60. Temporary telephone contact numbers were put in place within 24 hours and an interim website was created to give the public key information. Not all systems were affected: education and social work services' main systems were cloud-based and not significantly affected. The Comhairle's banking and

treasury management arrangements continued to operate using manual approvals.

61. Welfare benefits payments continued to be made, based on the last payment made before the cyber-attack. Similarly, staff were paid based on the most recent payment made before the cyber-attack. Changes in circumstances for benefit recipients and changes in staff pay were recorded on a manual basis to be updated when the relevant system became operational (the payroll system is now operational). Council tax and non-domestic rates billing was delayed for several months. There is a risk that debtors will not pay what they owe to the Comhairle, but a significant element of debt due to the Comhairle is from other public sector bodies, which lowers the risk of non-payment. Finance staff are aware of the increased risk of fraud in the aftermath of a cyber incident. Payment runs have been minimised to allow checks to be carried out before payment, and any changes to suppliers' details have been confirmed directly with the supplier.

62. The procurement and rebuild of affected systems is an ongoing process. The rebuilt financial systems and internal controls will require significant additional audit work in our 2023/24 audit to assess whether we have sufficient assurance over the completeness and accuracy of transactions and balances in the 2023/24 financial statements.

63. The Comhairle has produced an action plan to rebuild systems affected by the cyber-attack. The cyber security company commissioned by the Comhairle to investigate the cyber-attack and explore whether backups could be recovered issued an investigation report to the Comhairle with recommendations for improvement. The Comhairle has also commissioned an internal audit review of its response to the cyber-attack and lessons learned. It is essential that a lessons learned process is undertaken following investigations into the cyber-attack, and that IT/cyber security improvement recommendations from the investigation report form part of an agreed action plan.

64. We will report in more detail in next year's audit, once systems are rebuilt, on the Comhairle's response to the cyber-attack and how well lessons are being learned.

The Comhairle did not implement previously agreed improvements in IT, cyber security and business continuity arrangements

65. In previous years we have highlighted the importance of IT business continuity plans, recommending that Cyber Resilience and Disaster Recovery Plans should be finalised and approved by members. This recommendation remains outstanding. (Reference [Appendix 1](#), Prior year recommendation 5). Other prior years' recommendations also remain outstanding including updating (IT and non-IT) business continuity plans to learn lessons from recent events.

66. We cannot say whether implementing these recommendations would have prevented the cyber-attack, as organisations with more robust cyber security arrangements have been victims of cyber-attacks. However, our recommendations are made to improve governance arrangements and help

public bodies safeguard public assets. We recognise and report on the Comhairle's resource constraints, but the management actions agreed in response to audit recommendations should have realistic timescales and a commitment to the necessary resources.

67. Our 2022/23 audit work on IT risks identified further weaknesses in IT controls. This included:

- 30% (5/17 positions) of the IT Team positions were vacant (including Senior Systems Analyst) which had significant implications for progressing disaster recovery and cyber resilience plans and activities.
- The IT health check was overdue and linked to this, Public Sector Network (PSN) certification had expired for 2022/23 and was not yet renewed.
- Penetration testing was undertaken on an ad hoc basis and had not been conducted recently. An element of penetration testing is carried out during the PSN certification process (but PSN certification had expired)
- Information security training had lapsed for staff (should be at least every 2 years) and the uptake from staff had not been sufficiently monitored. We were informed that the training department was now taking the lead on this.
- The Asset and Infrastructure risk register covers IT and cyber security risks and includes several 'high' or 'extreme' risks. The format of this Register lacks key information such as timescales and responsible officers for completing any 'Risk Actions'. The 'Solutions' column in the Register is blank or has unclear actions with no timescales. The Register is used as an internal log for the IT department, rather than being considered by a designated governance committee to provide sufficient review and challenge of the risks and appropriateness of mitigating actions. There was no clear Committee responsibility for oversight of IT risks.

68. Our work was carried out before the cyber-attack; we expect that the Comhairle's response to the cyber-attack and lessons learned will include improvements to the IT control environment. We recommend that the weaknesses reported above are addressed as part of the response to the cyber-attack.

Recommendation 1

The Comhairle should develop an action plan to implement previous audit actions, incorporating those weaknesses identified as part of our 2022/23 work and lessons learned from the cyber-attack. As a priority the Comhairle should ensure:

- IT resources are reviewed to ensure that sufficient capacity exists (internally or externally sourced) to deliver agreed improvements.
 - regular cyber security training for staff is rolled out, with completion rates monitored and non-compliance addressed.
 - the Asset and Infrastructure risk register includes sufficient information detailing actions, timescales, responsible officers, and committee responsible for oversight of IT risks.
-

69. We also recommend that the Comhairle develops a Cyber Incident Response Plan in addition to updating its business continuity plans and disaster recovery plans. As cyber-crime becomes more sophisticated, cyber-security responses need to become more sophisticated. The CIRP is a detailed organisation-specific plan which sets out what should be done in the event of a cyber incident. It usually covers preparation (mitigating the risk of an incident); identification, containment, eradication, recovery and lessons learned. It requires IT resource, and external resource is often brought in to assess arrangements and develop a CIRP.

Recommendation 2

The Comhairle should develop a Cyber Incident Response Plan in addition to updating its business continuity plans and disaster recovery plans to reflect lessons learned from the cyber-attack.

Standards of conduct and arrangements for the prevention and detection of fraud and error were largely appropriate

70. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

71. The Comhairle had adequate arrangements in place to prevent and detect fraud or other irregularities. This includes organisational policies, procedures and internal controls, internal audit reports, codes of conduct, communication with staff to raise awareness of fraud risks, and participation in the National Fraud Initiative (NFI). However, our work identified a lack of progress in investigating NFI matches, as detailed below.

National Fraud Initiative investigations did not progress as planned during 2022/23

72. The National Fraud Initiative (NFI) is a counter-fraud data matching exercise across the UK public sector which aims to prevent and detect fraud.

73. We monitored participation and progress of this exercise during 2022/23. The Comhairle prepared data submissions in November 2022 and obtained its data match statistics. An update paper was presented to the Audit and Scrutiny Committee in September 2023 providing members with details of the match statistics for 2022/23, totalling 934 matches. However, the report noted that the Comhairle had not yet progressed work to investigate matches, due to other priorities and reduced staff resource levels across services.

74. The risk of fraud is increased following a cyber-attack as people are aware that a body's internal controls may be weakened or absent. Counter fraud activity, including the NFI, is particularly important at such times.

75. The report on the 2022/23-2023/24 NFI exercise has now been [published](#). It recommends that public bodies ensure that an appropriate level of resource is available to deliver NFI follow-up activities in an efficient and effective manner, in line with local priorities.

76. Data submissions for the new NFI exercise are due. The cyber-attack has limited the data that Comhairle nan Eilean Siar can provide, but some data, such as payroll data, is available and should be submitted.

Recommendation 3

The Comhairle should ensure that an appropriate level of resource is available to deliver National Fraud Initiative follow-up activities in an efficient and effective manner, in line with local priorities. Data for the new NFI exercise should be submitted, where it is available following the cyber-attack.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

Comhairle nan Eilean Siar's 2023/24 budget included planned use of reserves of £3.5 million and savings of £1.7 million.

The Comhairle is forecasting a budget gap of £7 million in 2024/25 and further savings and use of reserves are required to meet this gap.

The Comhairle should develop and implement a medium-term financial strategy to plan the use of its resources to deliver sustainable services into the medium term.

Audit work has addressed the wider scope risks identified in our Annual Audit Plan

77. [Exhibit 7](#) sets out the wider scope risks relating to Financial Sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 7

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
The Comhairle's budget strategy financial projections detail the budget gap over the next ten years. The report shows a budget gap of £3.1m in 2022/23, rising to £5.6 million by 2023/24. Over the ten years there is a forecasted total budget gap of £16.1 million.	<p>Review of the Comhairle's annual budget setting arrangements.</p> <p>Review and assessment of budget monitoring arrangements.</p> <p>Review of the Comhairle's medium to longer-term financial planning.</p>	The Comhairle's budget for 2023/24 was set with a contribution from general fund reserves of £3.5 million, and planned efficiency savings of £1.7 million. The Comhairle is forecasting a funding gap of £7 million in 2024/25, to be met through a combination of further efficiency savings and use of reserves.
Financial sustainability remains a risk with ongoing	On-going review of the Comhairle's financial position	

Audit risk	Assurance procedure	Results and conclusions
<p>financial pressures in the short to medium term. The Comhairle's Budget Strategy has depended on a phased use of reserves, together with service savings, to achieve a balanced budget. The situation in the Comhairle is exacerbated by the increasing costs to deliver key services.</p> <p>There remains a risk to financial sustainability and the sustainability and quality of services in future.</p>	<p>and delivery of planned savings</p>	<p>These plans face further risks from inflationary increases in costs and the impact of pay settlements.</p> <p>Conclusion: The Comhairle recognises its financial challenges, but measures have still to be put in place to achieve financial sustainability over the medium to longer term.</p> <p>Recommendation 3</p> <p>(Refer Appendix 1, action plan)</p>

The 2023/24 budget was approved in February 2023

78. The Comhairle approved its 2023/24 general revenue budget in February 2023. The budget was set at £122.3 million and includes a contribution from general fund reserves of £3.5 million. The budget also required the achievement of £1.7 million of efficiency savings. The latest forecast outturn for 2023/24 indicated an on-budget position, due to additional income received.

Forecast budget gaps require to be addressed through savings and planned use of reserves

79. The council updated its indicative funding gap for 2023/24 to 2024/25 as part of the 2022/23 budget setting process. The budget information presented a forecasted a funding gap of £4 million in 2023/24 and £7 million in 2024/25, respectively. The Comhairle plans to bridge these gaps mostly by efficiency savings and, in the absence of any additional funding, the transfer of reserves from the general fund.

Medium term financial plans are required to demonstrate how the Comhairle will address future financial challenges

80. The Comhairle's financial sustainability was assessed as part of the Best Value Assurance Report (BVAR) presented to the Accounts Commission in September 2022. This report noted the absence of a medium-term financial strategy and recommended that this should be implemented and linked to the Comhairle's other strategies for workforce and asset management.

81. The financial pressures on the Comhairle are significant. The impact of the pandemic and economic events is likely to extend across several years and could include a reduction in income from business rates and council tax non-payments as well as a reduction in fees and charges and increased costs such as higher staff costs to cover the delivery of services. The cost-of-living crisis is

driving greater demand for public services at the same time as the council faces rising costs due to high inflation, affecting energy, fuel, food and materials.

82. It is important that medium to long-term financial strategies (typically covering five to ten years) are in place which link spending to the Comhairle's strategic priorities. These financial strategies support the annual budgets approved by the Comhairle by providing the context of indicative future spending plans and the impact of forecasted pressures on the Comhairle.

83. The Comhairle is working to produce its medium-term financial strategy. During 2022/23 it engaged with an external consultant to develop work in this area including a review of its services and how additional savings can be delivered. The Comhairle should ensure that transformational planning is undertaken to deliver a financially sustainable service model, and to ensure that savings targets are set out in a medium-term financial plan which can be met.

Recommendation 4

The Comhairle should develop its medium-term financial strategy and planning arrangements to address the financial pressures it faces.

4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

84. Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions, having regard to:

- efficiency
- effectiveness
- economy
- the need to meet equal opportunity requirements.

Best Value work in 2022/23

85. For 2022/23 the scope of Best Value work included conclusions on:

- Leadership of the development of new local strategic priorities (2022/23 thematic work – [paragraphs 87-88](#))
- Council service performance improvement (part 6)
- Effectiveness of council performance reporting (part 6)
- Progress made against Best Value improvement actions made in previous years ([paragraphs 100-101](#))

86. As set out in the [Code of Audit Practice 2021](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts 5 and 6 of this annual audit report.

Leadership of the development of new local strategic priorities

87. Annual thematic Best Value work is set by the Accounts Commission. For the 2022/23 financial year, auditors were asked to focus on councils' leadership of the development of new local strategic priorities. The results of this work were reported to elected members at the Audit and Scrutiny Committee in September 2023. This report will be published on the Audit Scotland website soon.

88. The key messages from the Best Value management report have been included below.

Council vision and priorities

89. The Comhairle has set a wide-ranging vision for the area based on local need. It needs to identify clearer strategic priorities to focus action as it develops its new corporate strategy. The Comhairle and its partners have not yet started their planned update of the Local Outcomes Improvement Plan (LOIP).

90. The Comhairle has updated its strategic workforce, digital and corporate asset plans. These are scheduled for committee approval later in the year. It has employed consultancy support to develop its financial planning.

91. The Comhairle should ensure that its revised corporate strategy and strategic plans are consistent and identify clear priorities to target its activities. It is implementing revised performance management arrangements from September 2023.

Citizen and community engagement

92. Elected members show a close understanding of their communities. The Comhairle has shown good practice in consulting with communities, but this activity declined throughout the pandemic. A new Community Engagement Team is now in place to take this forward.

93. The Comhairle has continued to use member-officer working groups, seminars and its budget strategy group to engage members on more strategic leadership issues. Members are involved in developing its new corporate strategy. The planned mid-term organisational review brings an opportunity to address leadership capacity and succession planning.

94. The Comhairle has locality plans in place for two priority areas of need. It also makes use of area forums for some local spending decisions. It has more to do to shape its plans for community empowerment and devolving more responsibilities across the islands.

Reducing inequalities and tackling climate change

95. Climate change is a prominent focus in the priorities of the Comhairle and the Outer Hebrides Community Planning Partnership (OHCPP). The Islands Deal has a strong focus on renewable energy opportunities. The Comhairle has recently approved a new climate strategy.

96. The Comhairle's focus on inequalities is primarily on reducing poverty including the cost of living and fuel poverty. This activity is supported by the OHCPP's poverty working group, financial inclusion officers and community learning and development officers.

Alignment of delivery plans

97. The Comhairle is updating its key strategic plans. Detailed performance monitoring is in place; a clearer focus on key priorities is needed.

Leadership

98. Elected members work well together but need a stronger focus on strategic issues. A mid-term organisational review brings opportunities to address capacity pressures.

99. The audit recommendations made in the Best Value management report, with the management responses, are included in [Appendix 1](#) of this report. Some of the target dates for implementing the recommendations are now past. We have not revisited these improvement actions; we will follow up progress in the 2023/24 audit.

Follow up of 2022 Best Value Assurance Report

100. A Best Value Assurance Report on the Comhairle was published in September 2022. The report noted that elected members must provide leadership and clear priorities if the organisation is to improve public services and address significant financial and workforce challenges. The report made nine recommendations for improvement:

- The Comhairle should identify clear and specific overall priorities and actions for taking forward its vision.
- Elected members should ensure they provide strategic oversight and challenge to progress the Comhairle's vision and priorities.
- The Comhairle should develop medium- to long-term financial planning and strategic workforce and asset management planning.
- In developing capital projects, including its community hub proposals, the Comhairle should ensure projects are supported by robust business cases and that lessons are learned from the Goathill project in areas such as funding and resourcing.
- The Comhairle should improve its process for identifying and realising savings opportunities, including opportunities from cross-council and partnership working. It should ensure that opportunities for digital efficiencies are fully explored.
- The Comhairle and partners should develop the LOIP alongside a clear performance management framework to deliver achievable shared outcomes.
- The Comhairle should develop ongoing training opportunities for members and officers, including making equalities training mandatory for all staff and increasing members' uptake of training.
- The Comhairle should develop and communicate its area working arrangements more clearly, building on the good practice already in place.
- The Comhairle should improve communications throughout the council, including communicating the Comhairle's priorities.

101. The findings in the Best Value Assurance Report remain valid, and the BV management report updated on progress relating to the leadership theme since that time. The Comhairle presented an update on its BVAR Action Plan Progress Report to the Audit and Scrutiny Committee in February 2024. A further update is due to be presented in September 2024. This will be followed up as part of normal audit procedures in 2023/24.

5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

The Comhairle had appropriate governance arrangements in place during 2022/23 but there is scope to strengthen scrutiny arrangements.

The 2022/23 Annual Governance Statement included appropriate disclosure of the impact of the cyber-attack.

The Comhairle focused on open and transparent communication and decision making immediately following the cyber-attack.

102. The [Accounts Commission Strategy 2021-26](#) sets out its priorities to focus on inequalities, funding, communities and recovery. The Code of Audit Practice sets out the Best Value work required to report on these priorities.

103. Over our 5-year audit appointment, a separate management report from auditors will be issued each year that details the outcome of thematic Best Value work. It should be recognised that much of Best Value work overlaps with the wider-scope elements. For 2022/23, our Best Value management report concluded on the effectiveness of the council's leadership of the development of the Comhairle's strategic priorities following the 2022 local government elections. Therefore, this section of our report covers governance, with vision and leadership being considered in the Best Value section.

Governance arrangements were largely appropriate during 2022/23 but there is scope to strengthen scrutiny arrangements

104. The Comhairle's governance arrangements were set out in the annual governance statement in the annual accounts. These arrangements included the committee structure for decision making, constitutional documents such as standing orders and financial regulations, risk management processes, internal audit, local code of corporate governance and codes of conduct. We reviewed these arrangements and concluded that they were appropriate.

105. These governance arrangements support effective public scrutiny. We concluded on the robustness of public scrutiny based on attendance at Audit and Scrutiny Committee meetings, observation of other meetings and review of agenda papers and minutes. There is scope to strengthen scrutiny arrangements by ensuring that elected members take a stronger role in driving change and improvement. Our best value audit work found that members are engaged and actively scrutinise committee items. Scrutiny can at times be too operational and focus on local rather than more strategic issues.

The Annual Governance Statement included appropriate disclosure of the impact of the cyber-attack

106. The cyber-attack occurred before the 2022/23 annual accounts were certified and was a significant event affecting governance arrangements. The Comhairle added in appropriate disclosure to the Annual Governance Statement.

The Comhairle focused on open and transparent communication and decision making immediately following the cyber-attack

107. As reported at [paragraph 58](#), the cyber-attack denied access to key systems and back-ups including the financial ledger, revenues and benefits system and the planning system. It also blocked internal and public access to the Comhairle nan Eilean Siar website and initially affected the telephony system so staff and the public could not contact the Comhairle. Temporary phone numbers were set up as part of the initial response to the cyber-attack.

108. An interim website with limited functionality was set up to allow public access to key information on services and council decision making, including committee agenda papers and minutes. Committee meetings continue to be held in a hybrid environment and recordings of meetings are available online. The website has a link on the home page to the most recent updates about the cyber-attack. There is no search function on the interim website, which limits its accessibility. It will take time and resource to rebuild the Comhairle's affected systems, including the full functionality of the website.

109. It is essential that the Comhairle learns lessons from the cyber-attack. Internal Audit are carrying out a review of the Comhairle's response to the cyber-attack, including lessons learned. We will take account of Internal Audit's conclusions when we report in our 2023/24 audit on the Comhairle's progress in recovering from the cyber-attack.

Climate change arrangements

110. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

111. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

112. The Comhairle's corporate strategy includes a commitment to reduce its carbon footprint and deliver the Climate Change Strategy. The Comhairle approved its Climate Change Strategy in September 2022. The strategy sets out how the Comhairle will work to decarbonise its estate, assets, and services, as well as how it will work with partners to support the islands towards Net Zero and to build resilience to the effects of a changing climate.

113. There are three priority areas aligning to national priorities on climate change: a Carbon Neutral Comhairle, Net Zero Islands and Climate Resilient Islands. The joint Islands Deal with Orkney and Shetland Islands Councils has a strong focus on green energy and climate issues.

114. The strategy provides strategic direction on climate change for the Comhairle to work across services and with partners to plan and deliver the climate change mitigation and adaptation measures required to achieve its objectives. A climate change action plan with performance indicators has been developed and will be used to track progress against key outcomes.

115. We have noted from our audit work that the Comhairle is taking forward climate change objectives and initiatives. For example, it has recently developed and published its Local Heat and Energy Efficiency Delivery Plan, which sets out the long-term plan for decarbonising heat and improving the energy efficiency of its buildings.

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The Comhairle had arrangements in place for collecting, recording, and publishing statutory performance information which complies with the Statutory Performance Direction.

The Comhairle should ensure that its revised corporate strategy and strategic plans are consistent and identify clear priorities to target its activities.

The Comhairle had arrangements in place for the preparation and publication of Statutory Performance Information (SPIs) which complies with the Statutory Performance Direction

116. [The Best Value: Revised Statutory Guidance 2020](#) sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities. The guidance also sets out that performance management arrangements should be in place to promote the effective use of the local authority's resource, which includes effective performance reporting.

117. The Accounts [Commission's 2021 Statutory Performance Direction](#) defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

118. The Comhairle published its Annual Public Performance Report, and Corporate Strategy Annual Report 2023. The Comhairle met its statutory duty to report its 2021/22 performance information to the public by 31 March 2023. These reports provide assessment of progress against its strategic priority measures and relative performance from the Local Government Benchmarking Framework (LGBF) for 2021/22.

119. Services set milestone targets to enable their respective committees to scrutinise progress towards meeting their targets. Quarterly service performance reports providing service business plan action progress and key performance indicators were published on the Comhairle's website.

120. We concluded that the Comhairle had arrangements in place for the preparation and publication of Statutory Performance Information which complies with the Statutory Performance Direction.

Performance management arrangements should be developed to provide a clearer focus on priorities

121. The Best Value Assurance Report published in 2022 recommended that the Comhairle should identify clear and specific overall priorities and actions for taking forward its vision, and elected members should ensure they provide strategic oversight and challenge to progress the Comhairle's vision and priorities.

122. The corporate strategy listed over 200 performance indicators to monitor progress toward the strategic outcomes. The performance indicators detailed in the corporate strategy were not reported to Committee as part of the performance reports. Instead, performance reports have performance indicators related to service business plans.

123. As detailed in the Best Value reporting in section 4, the Comhairle should ensure that its revised corporate strategy and strategic plans are consistent and identify clear priorities to target its activities. It is implementing revised performance management arrangements from September 2023 and intends to report Corporate Strategy performance indicators in table form by strategic priority and outcome. We will continue to monitor this in future years.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. IT arrangements</p> <p>The Comhairle has not implemented previously agreed IT and cyber resilience improvement actions.</p> <p>IT staffing vacancies have continued for a long period, its PSN accreditation expired, and staff training on cyber security and information security is not up to date.</p> <p>Risk – resources are insufficient to address IT risks and the Comhairle remains vulnerable to further cyber-attacks.</p>	<p>The Comhairle should develop an action plan to implement previous audit actions, incorporating those weaknesses identified as part of our 2022/23 work and lessons learned from the cyber-attack. As a priority the Comhairle should ensure:</p> <ul style="list-style-type: none"> • IT resources are reviewed to ensure that sufficient capacity exists (internally or externally sourced) to deliver agreed improvements. • regular cyber security training for staff is rolled out, with completion rates monitored and non-compliance addressed. • the Asset and Infrastructure risk register includes sufficient information detailing actions, timescales, responsible officers, and committee responsible for oversight of IT risks. <p>Paragraph 68</p>	<p>The recruitment process for 4 of the 5 vacant posts has been completed and the successful applicants are now in post. The remaining post is in progress.</p> <p>An action plan will be developed, some elements of which are already in progress.</p> <p>Responsible officer: IT Manager</p> <p>Agreed date: March 2025</p>
<p>2. Cyber security improvements</p> <p>The Comhairle is in the process of reviewing its</p>	<p>The Comhairle should develop a Cyber Incident Response Plan in addition to updating its business</p>	<p>Agreed. Initially will consider the feasibility of third party expertise to assist with the development of the plan,</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>response to the cyber-attack and identifying lessons to be learned, but significant resource challenges remain, in terms of staffing and financial cost.</p> <p>Risk – resources are insufficient to address IT risks and the Comhairle remains vulnerable to further cyber-attacks.</p>	<p>continuity plans and disaster recovery plans to reflect lessons learned from the cyber-attack.</p> <p>Paragraph 69</p>	<p>which will take into account the changes already being implemented e.g. in the rebuilding of systems. The Disaster Recovery and business continuity plans will be addressed as part of the overall plan.</p> <p>Responsible officer: IT Manager</p> <p>Agreed date: March 2025</p>
<p>3. National Fraud Initiative (NFI) arrangements</p> <p>The Comhairle did not fully progress investigation of data matches from the 2022/23-2023/24 NFI exercise, due to lack of resource and a focus on other priorities.</p> <p>Data has not been submitted for the new NFI exercise.</p> <p>Risk – Fraud may not be detected. The risk of fraud increases following a cyber-attack as there is awareness of weakened or absent controls.</p>	<p>The Comhairle should ensure that an appropriate level of resource is available to deliver National Fraud Initiative follow-up activities in an efficient and effective manner, in line with local priorities. Data for the new NFI exercise should be submitted, where it is available following the cyber-attack.</p> <p>Paragraph 76</p>	<p>As a result of the cyber-attack, it will not be possible to submit data for the majority of the upcoming NFI exercise as data is incomplete or held on manual records. There are processing backlogs in revenues and benefits, which need to be addressed as a priority and all available resources will be required to address this. Payroll data should be available and this will be submitted.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: Ongoing</p>
<p>4. Medium term financial strategy</p> <p>The Comhairle has not yet finalised its medium-term financial strategy.</p> <p>Risk – Financial planning does not support financially sustainable services to deliver the Comhairle's strategic priorities.</p>	<p>The Comhairle should develop its medium-term financial strategy and planning arrangements to address the financial pressures it faces.</p> <p>Paragraph 83</p>	<p>Developing a Medium Term Strategy is complicated in a period of one-year Scottish Government Settlements and a continuing reduction in funding. However, the MTFs will be completed as part of the upcoming budget setting exercise.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: February 2024</p>

2022/23 recommendations from the BV thematic report

Issue	Recommendation	Agreed management action/timing
5. Leadership of strategic improvement	<p>The Comhairle should ensure that clear and specific priorities are agreed for members' leadership and scrutiny. It should develop a prioritised improvement plan including potential efficiency opportunities arising from its asset, digital and workforce plans.</p>	<p>The corporate strategy is being developed in consultation with members. Revised asset, digital and workforce plans have been developed and subject to approval by committee later in 2023. Member training is ongoing including seminars on strategic themes including scrutiny. Financial consultant in place to develop financial plans and efficiency opportunities.</p> <p>Lead officer: Chief Executive Agreed date: June 2024</p>
6. Reflecting local issues in Strategic plans	<p>The Comhairle needs to seek public views on its revised corporate priorities. It should develop its public engagement activities building on previous good practice. It should assess available locality/ demographic data including customer feedback.</p>	<p>A new Community Engagement Team (CET) is in place. Consultation over corporate priorities anticipated from September 2023.</p> <p>Lead officer: Head of HR and Performance Agreed date: June 2024</p>
7. Realising community empowerment opportunities	<p>The Comhairle, in partnership with communities should set out its plans for Area Forums, local budgeting and Participatory Budgeting.</p>	<p>This is ongoing and largely dependent on local groups. The CET has a facilitation and communication role.</p> <p>Lead officer: Chief Executive Agreed date: June 2024</p>
8. Alignment of strategic plans with council priorities	<p>The Comhairle should review its strategic plans for consistency and alignment with priorities. It needs to further develop service plans, operational asset plans, and service-level workforce plans within its strategic framework. It should work with OHCPP</p>	<p>The Comhairle anticipates having new corporate plans in place by the year end, in time for the development of service plans in early 2024. It has also appointed a financial consultant. Progress with the LOIP is dependent on the OHCPP capacity.</p>

Issue	Recommendation	Agreed management action/timing
	partners to review its LOIP and set agreed priorities.	Lead officer: Head of HR and Performance Agreed date: March 2024
9. Addressing fairness and inequalities within the islands and the Comhairle	The Comhairle should continue to engage with communities and staff. This includes ongoing staff surveys and addressing sickness absence. Integrated Impact Assessments should be made available online.	CET is in place to engage communities. The Comhairle plans to undertake internal stress surveys. Equal pay audit is underway. IIA issue is being addressed. Lead officer: Head of HR and Performance Agreed date: June 2024

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Heritage assets	The Comhairle should carry out the remaining planned review of the valuation process for heritage assets and set out a clear valuation policy.	Complete
b/f 2. Capital programme	A capital programme review should be undertaken to identify areas of optimism bias and inform the 2023-2028 capital programme	Complete
b/f 3. Lews Castle Investigation	The findings and recommendations from the Internal Audit report should be addressed. A way forward should be found that respects both the need for members making informed decisions and the freedom for the chief executive to act within the Scheme of Delegation. The Comhairle should consider the value of utilising the Audit Scotland 'Your Reputation @ Risk' survey to assess	Complete

Issue/risk	Recommendation	Agreed management action/timing
	officer's and member's awareness of conduct and other governance policies.	
b/f 4. Business Continuity Plans	The business continuity working group should use the lessons learned from the Comhairle response to COVID-19 (<i>and now the cyber-attack</i>) to co-ordinate the development of refreshed service and corporate business continuity plans.	Outstanding Now included in Recommendation 2 above
b/f 5. IT business continuity plans	Cyber Resilience and Disaster Recovery Plans should be finalised and approved by members.	Outstanding Now included in Recommendation 2 above
b/f 6. SPI milestones	Departments should now set achievable milestones to assess progress towards meeting targets for prioritised performance indicators	Complete
b/f 7. Procurement training	Procurement training should be rolled out to services to ensure that policies and procedures are followed.	In Progress An updated Procurement Guide for use by staff has been completed, and a training module has been developed, to be deployed via the LearnPro platform. The roll-out of the training was delayed by the cyber-attack. There will also be face-to-face training of the staff who frequently conduct larger procurements. Responsible officer: Chief Officer Law and Governance Revised date: December 2024

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £230k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£000	£000	£000	£000
1. Gain on revaluation of land and buildings	Revaluation of Fixed Assets		606		
	PPE			606	

Notes:

Entry 1 relates to the impact of revaluation of land and buildings with a carrying value of less than £1,000,000 that was not applied in 2022/23.

Comhairle nan Eilean Siar

2022/23 Annual Audit Report

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