

Comhairle Nan Eilean Siar

Annual report on the 2010/11 audit



Prepared for Members of Comhairle nan Eilean Siar and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

Background

Scotland's public bodies are facing major spending cuts and must focus on their long term financial sustainability to ensure effective public services in the future, with clear priorities, budgets and workforce plans. Councils have responded to reductions in funding in 2011/12 and are making significant savings, however there is a risk that cost pressures will be greater than expected due to unforeseen events.

Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Most councils have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes. The key issues for members include the leadership and governance of public service reform, financial sustainability, and workforce planning to deliver effective public services.

The Comhairle recognised the financial challenges ahead when agreeing its budget strategy for 2011-14. The HR strategy, which addresses planned reductions in workforce and other measures to reduce the paybill, was an important element of this. The process to identify savings demonstrated good working relationships between officers and members. However, year on year budget reductions mean that the identification and achievement of future savings will become increasingly difficult.

2010/11

We have given an unqualified opinion on the financial statements of Comhairle nan Eilean Siar for 2010/11. We have, however, drawn attention to the fact that the Building Maintenance significant trading operation has failed to break even, on a cumulative basis, over the three year period to 2010/11. Significant action has been taken to "right size" the operation and it is projected to break even in 2011/12.

The general fund recorded a net surplus for 2010/11 of £4.363 million, therefore increasing the balance to £14.644 million as at 31 March 2011. This balance includes earmarked commitments of £11.473 million and an unallocated general fund balance of £3.171 million which is above the Comhairle's target balance of £3 million.

There continues to be year on year slippage of the capital programme. The planned capital expenditure, excluding the Western Isles Schools Project (WISP) for 2010/11 was £17.228 million. However, actual expenditure was reduced by £1.793 million (10%) during the year to £15.435 million due to slippage on capital projects.

Cumulative expenditure on the WISP at 31 March 2011 is £22.2 million. The Comhairle forecast that the total capital expenditure will be £74 million with the schools being in use between August 2011 and August 2012. The overall project is on schedule and on budget.

The Comhairle has made steady but slow progress in implementing improvements to its asset management, performance management and procurement procedures.

Overall, we are satisfied with the Comhairle's governance arrangements. Recommendations for improvements or to address non conformance of procedures have been included in reports to management during the course of the year. In addition to these, our review of the benefits service has identified steps necessary to address risks to continuous improvement; and Internal Audit have identified necessary improvements required to tendering procedures.

A best value audit of the Comhairle was carried out in 2011. The best value report was issued in November 2011. The report concluded that the Comhairle's overall performance is satisfactory and that it has fair prospects for future improvement. The main areas for improvement for the Comhairle identified in the best value audit are:

- The Comhairle needs to embed performance management arrangements with particular improvement needed around developing a performance management culture and demonstrating the impact of its work on outcomes through the performance management system.
- The Comhairle and its partners should continue to develop partnership arrangements focusing on measuring and demonstrating progress towards outcomes. Elected members should be more actively involved.
- The Comhairle needs to develop and coordinate its approach to continuous improvement, using elected members to direct and challenge activity.
- The recent increase in the pace of change needs to be sustained and further progress needs to be made in performance management, asset management, risk management and procurement.
- The Comhairle needs to measure customer satisfaction and use this information to develop its approach to assessing and demonstrating value for money of services.

Outlook

The outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The Scottish spending review and draft Scottish budget 2012/13 that was issued for consultation in September 2011 indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

The Comhairle enters this period in a relatively stable financial position with a good understanding of the demographics of the islands and the impact that projected changes will have on future spending requirements. However, difficult decisions lie ahead which will require to be underpinned by a more detailed long term financial plan.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Comhairle nan Eilean Siar. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of the Comhairle.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit and Scrutiny Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Comhairle. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the Comhairle is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Comhairle nan Eilean Siar for 2010/11 give a true and fair view of the state of the affairs of the Comhairle and its group as at 31 March 2011 and of the income and expenditure for the year then ended.
11. We have however, drawn attention in our audit report to a failure to comply with the Local Government in Scotland Act 2003: the Comhairle's only significant trading operation (STO), Building Maintenance, failed to break even on a cumulative basis over a three year period. It made a loss of £0.446 million during 2010/11 and a cumulative loss for the three year period of £0.894 million. Whilst this is a failure to comply with the Local Government in Scotland Act 2003, it does not impact on the fairness of the financial statements or affect the overall opinion on the financial statements.

Legality

12. Through our planned audit work we consider the legality of the Comhairle's financial transactions. In addition the Director of Finance and Corporate Resources confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Comhairle's management team, the financial transactions of the Comhairle were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the systems of internal financial control

13. We are satisfied with the disclosures made in the statement on the systems of internal financial control and the adequacy of the process put in place by the Comhairle to obtain the necessary assurances.

Remuneration report

14. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant Comhairle officers and elected members.

Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the Comhairle prepared the 2010/11 financial statements in accordance with the 2010 Code. The Comhairle adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance and Corporate Resources and the Audit Panel.

Accounts submission

16. The Comhairle's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally very good and this enabled the audit to progress smoothly. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

17. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments primarily relate to reclassifications within the balance sheet and have not had any impact on the general fund balance of the Comhairle. A number of presentational amendments have also been processed to improve the disclosures within the financial statements.

Prior year adjustments

18. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main

areas that required restatement were the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of cash and cash equivalents. These changes resulted in the net asset position of the Comhairle as at 31 March 2010 changing from a negative net worth of £6.249 million to a positive net worth of £51.566 million. However, the accounting nature of these adjustments means that there has been no change to the usable reserves of the Comhairle. A summary of the adjustments made to the opening balance sheet are recorded in note 1 to the annual accounts.

Pension costs

19. The Comhairle is a member of the Highland Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the Comhairle has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the Comhairle's share of the deficit from £62.935 million last year to £29.537 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Whole of government accounts

20. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Comhairle submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and the audited return was completed by the audit deadline of 30 September.

Group financial statements

21. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. The Comhairle has a fully owned subsidiary, Sgoiltean Ura LLP, an arms length limited liability partnership responsible for the management of the design, construction, facilities management and lifecycle maintenance of the schools being built as part of the Western Isles Schools Project (WISP). It also has 3 associates: Highlands and Islands Fire Board, Northern Joint Police Board and Highland and Western Isles Joint Valuation Board. They have been included in group accounts in accordance with the Code. The overall effect of inclusion of these group entities is to reduce net worth by £56.679 million. Despite this, the Group has a positive net worth of £47.915 million at 31 March 2011.

Trust funds

22. The Comhairle acts as sole trustee for twelve educational, social welfare and miscellaneous trusts. They relate principally to legacies left by individuals with Western Isles connections over a period of years. As none are registered charities the Comhairle is not required to prepare full financial statements for each trust fund to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006.

Carbon trading

23. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The Comhairle is not required to participate in carbon trading but merely to register half hourly meters and consumption. They have registered and fulfilled their duty towards Carbon Reduction commitment (CRC).

Outlook

24. With effect from 1 April 2011, Financial Reporting Standard (FRS) 30 requires local authorities to identify and value its heritage assets; and disclose these accordingly in the financial statements. Heritage assets are those held and maintained by the Comhairle in trust for future generations because of their cultural, environmental or historical associations. The Comhairle hold a number of works of art and museum artefacts which would meet these criteria.
25. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
- IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.

Audit appointment for 2011/12

26. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Scott Moncrieff will be the appointed auditor for Comhairle nan Eilean Siar. We will be meeting with Scott Moncrieff as part of a managed changeover process.

Financial position

27. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
28. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
29. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the Comhairle.

Financial results

30. In 2010/11, the Comhairle spent £156.646 million on the provision of public services, resulting in an accounting surplus of £33.840 million. This surplus includes capital grants received and other amounts totalling £29.477 million that are specified by statutory provisions as being available to meet future capital and revenue expenditure. Hence, the net revenue surplus for 2010/11 was £4.363 million.

Budgetary control

31. As noted above, the Comhairle made a net revenue surplus in 2010/11 of £4.363 million in 2010/11. This is set against a budgeted surplus of £0.015 million. Significant reasons for the improvement are due to PSHG income not spent of £2.005 million and £1.543 million of funding (via RSG) in relation to the Western Isles Schools Project (WISP), both of which will require to be spent in a future year. Once these are eliminated the surplus for the year is £0.815 million compared to the budgeted surplus of £0.015 million. Overspends on winter maintenance and children's residential placements have been offset by savings on external interest payments, additional council tax income, and a reduction in joint board requisitions.
32. The Comhairle's only STO, Building Maintenance, made a loss of £0.446 million during 2010/11 and a cumulative loss for the three year period of £0.894 million and, therefore, failed to achieve the statutory performance target to break even. The loss in 2010/11 was partly due to the steps taken to reduce the scale of the Building Maintenance service to match the reduction in its contracted work. Exceptional costs in 2010/11 therefore included £0.213 million on redundancy costs and £0.063 million on stock write offs. Significant action was taken throughout the year to transform the operation to a "Right Size" business model. The forecast budget for 2011/12 reflects this transformation with a break even target on a budgeted income of £1.023 million (compared to 2010/11 income of £3.232 million). At the

end of period 4 the forecast loss for 2010/11 is down to £0.012 million, including a provision of £0.017 million for accrued holiday pay.

Financial position

33. Exhibit 1 shows the balances in the Comhairle's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a capital receipts reserve. The Comhairle's funds at 31 March 2011 totalled £17.012 million, an increase of £4.427 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	10.281	14.644
Capital Fund	1.306	1.306
Capital Receipts Reserve	0.691	0.566
Capital Grants Unapplied	0.432	0.371
Total	12.585	17.012

Source: Comhairle nan Eilean Siar 2010/11 financial statements

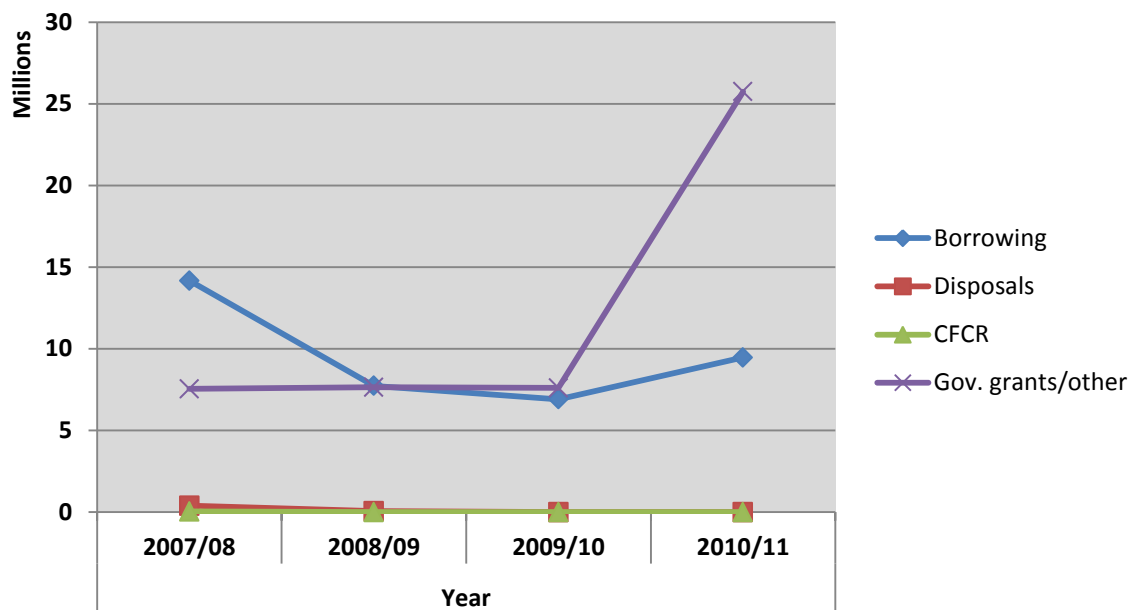
34. The general fund balance increased by £4.363 million during the year to a balance of £14.644 million which equates to 12.8% of the Comhairle's net operating expenditure. Of this balance £11.473 million has been earmarked for specific purposes. This leaves an unallocated balance of £3.171 million which is in accordance with the Comhairle's policy to maintain a minimum uncommitted general fund balance of £3 million.
35. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators will assist in evaluating the Comhairle's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. In future years the Director of Finance and Corporate Resources is to consider reporting these indicators as part of the financial statements.
36. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. However, they are not yet available to include with this report, as they are based on the audited financial statements for all councils. The indicators will be issued to the Comhairle separately for consideration.

Capital investment and performance

37. There continues to be year on year slippage of the capital programme, albeit this is reducing each year. Actual capital expenditure for the year (excluding the WISP) was £15.435 million compared to a revised forecast of £17.228 million, hence there was an underspend of £1.793 million (10.1%). The overall underspend consisted of various projects that slipped amounting to £2.5m offset by projects totalling £0.700 million which were brought forward. The reasons for the slippages were mainly due to operational or unforeseen weather related issues rather than due to insufficient capacity. Nevertheless, the year on year slippage of the capital programme could impact the Comhairle's capacity to deliver all strategic capital projects over the 2008-2013 period of the capital plan. This requires to be managed, particularly when resources will be stretched by the schools project requirements.
38. It is expected that capital expenditure in 2011/12 (excluding the WISP) will be higher than the previous two years at around £21.3 million. This is somewhat ambitious given that capital expenditure in each of the last two years has been £15.4 million and £14.7 million respectively. In June 2010 it was decided that no further PIDS would be considered during the remainder of the 2010/11 to 2012/13 capital programme until savings necessary to attain a balanced revenue budget during this period have been identified. This is still in force and resulted in £18.767 million of PIDS not yet approved and £5 million of new projects (both scheduled for 2012/13) being put on hold. In view of the moratorium and to ensure that essential capital work is carried out, it was agreed during the 2011/12 budget consultation process to give up certain specified revenue spending on roads and building maintenance requirements to secure £7 million on spend to save capital project financing. This means that funds will be allocated to roads and building capital repairs projects so that revenue budgets may be reduced without a corresponding reduction in work done. This is being spent over the remaining two years of the 2008-2013 capital programme.

Refer Action Plan No. 1

39. Exhibit 2 shows the sources of finance for capital expenditure in the four years to 2010/11.

Exhibit 2: Sources of finance for capital expenditure 2007/08 - 2010/11

Source: Comhairle nan Eilean Siar 2010/11 financial statements

Western Isles Schools Project

40. The Comhairle incurred £17.8 million capital expenditure on construction of the 6 new schools under the WISP during 2010/11. This brings cumulative capital expenditure to 31 March 2011 to £22.2 million. The Comhairle forecast that the total capital expenditure on these schools will be £74 million with the schools being in use between August 2011 and August 2012. Sgoiltean Ura LLP and Faithful and Gould, the project private sector development partner, confirm that the overall project is on schedule and on budget, with the schools at Balivanich and Point in use since August 2011.

Treasury management

41. As at 31 March 2011, the Comhairle held cash and temporary investments totalling £33.931 million (£14.520 million at 31 March 2010). This increase is in line with the Comhairle's prudential borrowing indicators and arose due to them taking out loans at favourable interest rates to secure borrowing for the WISP. The increase also arose due to the timing of funding received from the Scottish Government to finance the WISP.
42. The Comhairle's borrowing increased by £12.145 million to £157.884 million as at 31 March 2011. A £5 million EIP loan at a rate of 2.83% was borrowed from the PWLB for 10 years in May 2010 and a £10 million 50 year maturity loan was borrowed from the PWLB in August 2010 at a rate of 3.92%. The average loans pool rate at 31 March 2011 was 6.11% compared to 6.28% at 31 March 2010.
43. The current economic climate means that interest rates on borrowing are low. During 2011/12 the Comhairle has debt of £8.1 million maturing which together with the £3 million of loan maturities from 2010/11 not yet replaced that will have to be refinanced in the medium term. In

April 2011 a high interest loan of £1.3 million was repaid early to realise future savings. The premium was funded from the earmarked Loans Fund re-structuring balance.

Financial planning to support priority setting and cost reductions

44. The Comhairle recognised the financial challenges when agreeing its budget strategy for 2011-14. The strategy comprised five strands of work to identify savings, including the HR strategy. The Comhairle considered various budget options and identified the budget reductions of £5.3 million required to break even in 2011/12. The process to identify savings demonstrated good working relationships between officers and members, including seminars to keep members informed of the process, costed options, and the importance of the decisions they were required to make. The public have and continue to be consulted on the various proposals to achieve the service reductions. This process was thorough and effective. Further details are included in the outlook paragraphs at the end of this section.

Asset management

45. The Comhairle has been slow to develop its approach to asset management and there is limited evidence of working with partners to jointly rationalise assets. It has taken some actions to improve asset management, in particular: transferring responsibility for repairs and maintenance budgets to the Technical Services department; creating a properties database in respect of disability discrimination act responsibilities; introducing a surplus asset disposal policy; agreeing an improvement plan which addresses the recommendations set out in Audit Scotland's national report on Asset Management in Local Government; and the Asset Management Working Group structure is operational. Property rationalisation projects and asset disposals are being progressed, realising receipts in excess of £0.1 million to date.
46. The recent actions taken by the Comhairle will improve its knowledge base of the assets it owns, uses, and maintains. The Comhairle needs to develop a framework where property asset management is clearly linked to the corporate objectives and service needs and drives the capital programme. Currently, there is little evidence to demonstrate whether its action to date has reached this stage. It is also essential that, for all assets, there are detailed records regarding the condition, usage, purpose, annual running costs, required maintenance costs etc. to enable effective asset management. There is also limited evidence of working with partners to jointly rationalise assets.

Refer Action Plan No.2

Procurement

47. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. Councils need to achieve 25% or more to achieve

conformance status. In 2009 the Comhairle scored 15%. It was reassessed in October 2010 and achieved an improved score of 21% which still represented non conformance. The local government average was 32%.

48. The Comhairle failed to achieve conformance status primarily because of the small size of the procurement team, the procurement activity being undertaken by departments rather than centrally and the limited development of the strategic procurement role.
49. A PCA improvement plan, prepared with support from Scotland Excel, was approved in March 2011. This contains 32 actions to achieve conformance status. The Comhairle recognises that a lot of work and support from departments will be required to deliver the improvements identified in the plan. Work is ongoing to implement the action plan and a revised procurement strategy covering the period 2011-14 was approved in June 2011. This focuses on six strategic priorities for the three year period ahead and contains objectives, outcomes and targets that will be monitored.

Refer Action Plan No. 3

Workforce reduction

50. The Comhairle approved a HR strategy in 2010. This proposed reducing recruitment to a minimum, seeking volunteers in the first instance in all areas of service reduction and developing efficiency savings in methods of working.
51. The Comhairle sought voluntary severance in accordance with the HR strategy as part of the 2011/12 budget setting process. This estimates savings in the region of £4 million over the next five years, following an initial cost of £0.970 million in 2010/11. During 2010/11 the Comhairle granted early retirement or redundancy to 33 teachers and 63 other members of staff.
52. Further volunteers for redundancy are currently being sought under the same terms as offered in 2010/11. However, the Comhairle realises that it may not be possible to reduce service areas selected through the service choice options for cuts without compulsory redundancy.
53. In 2011 the Comhairle approved a policy on workforce planning which incorporates succession planning for business continuity purposes over a three to five year period. All departments will prepare a current workforce profile and identify future workforce and skill requirements. The Comhairle intends to use the information to help ensure that critical skills are retained and that volunteers for redundancy and early retirement are assessed against set criteria. The Comhairle successfully used a similar process in 2010 when downsizing the building maintenance service to meet a reduction in the work it carried out.

Partnership working

54. The Comhairle and its partners share a clear vision for the Outer Hebrides. The Outer Hebrides Community Planning Partnership (OHCPP) which is responsible for monitoring progress against the single outcome agreement (SOA) incorporates representatives from 13

agencies and is supported by an executive group and 5 thematic outcome groups. The SOA (2011-14) details 7 local outcomes and includes 7 priorities to focus activity on achieving the outcomes.

55. Overall relationships within the partnership are good and at an operational level there are good examples of joint working. There is still some work to be done to demonstrate an effective Community Planning Partnership and this should be the focus for the partnership over the short to medium term. The partnership is unable to effectively demonstrate progress against partnership outcomes due to partnership arrangements still developing and limitations with the partnership's performance management arrangements. This is highlighted in the Best Value report issued concurrent to this report.
56. The Comhairle and NHS Western Isles work jointly through the Community Health and Social Care Partnership (CHaSCP), a joint services committee and a joint liaison and planning group. Operational difficulties still exist. These were covered in the Best Value report and are reflected in paragraph 116 of this report.
57. The Comhairle raised the issue of a single public authority in the Western Isles with the Christie Commission. The Christie Commission report stated that this was an interesting and positive idea, which could provide a valuable opportunity to explore and possibly pilot alternative models for the governance and organisation of public services.
58. The Comhairle and its partners in the OHCPP are developing the foundations which will help them work towards the aspiration of initiating a single public authority. In view of the pressures on the public purse, we encourage the Comhairle to continue to develop this.

Outlook

2011/12 budget

59. The 2011/12 Local Government Settlement was based on an agreement between COSLA and the Scottish Government which superseded the 2008-11 Concordat. The agreement included an overall 2.6% reduction in funding for Local Authorities, the continuation of the Single Outcome Agreement and a Council Tax Freeze. The settlement required the Comhairle to address a budget deficit of £5.149 million.
60. In recognition of the challenge it faced in setting the 2011/12 budget the Comhairle agreed its strategy in April 2010. The structured process followed allowed Members both collectively and individually to consider budget priorities in identifying possible areas for budget reductions. This approach contained five strands of work: financial modelling, efficiencies, diagnostic pathway, service choices and human resources strategy. Efficiencies of £2.624 million together with the savings of £1.741 million left a balance of £0.917 million of savings to find. Implementation of the eleven proposals which were subject to consultation in January 2011 resulted in further savings of £0.920 million and a budgeted surplus of £0.003 million for the year.

2011/12 budget reporting

61. The forecast outturn per the first quarter revenue monitoring report for 2011/12 is a net overspend of £0.6 million against the budgeted surplus of £0.003 million. Services' overspend of £1.1 million is offset by interest savings of £0.5 million. Areas of concern are education transport and energy costs and, within Technical Services, bus subsidies and project delivery. However, the Comhairle are confident that this is being addressed and are forecasting that uncommitted balances will increase from £3.171 million to £3.206 million by the year end.

Financial forecasts beyond 2011/12

62. The Comhairle recognises the demographic impact that an increasing proportion of older people, combined with a reduction in the population at schooling age will have on the islands and makes annual increments to the budget to reflect this. However, it does not have an overarching financial strategy covering the longer term. This will make it difficult to assess the overall impact of reduced funding across the organisation going forward.
63. For the period 2012-15 the Scottish Government has only published indicative budget figures. These show flat cash settlements for Local Government and, based on the latest GDP deflator, this would equate to a real terms 10% reduction over the period.
64. The Comhairle agreed to maintain, as a planning assumption, a savings target of 5% for each of the next three years. This is equivalent to savings requirements of between £5million and £6 million each year. It was also agreed that the main themes (for achieving the savings) for 2012-15 should be: engagement, through COSLA, in Local Government funding and distribution; financial planning and modelling; human resources strategy; alternative service delivery models; and budget choices. The Comhairle expects to meet its required savings in 2011/12. However, this is the first year of what is forecast to be an increasingly challenging time for the public sector and in the light of the continuing financial challenges ahead, work on the budget for 2012-15 commenced in March 2011.

Refer Action Plan No 4

Governance and accountability

65. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
66. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
67. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
 - internal audit
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
68. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

69. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Policy & Resources Committee (P&R) allow existing policies and new proposals to be subject to consideration and discussion by members in a timely manner.
70. The P&R Committee has a wide remit, including the approval of annual budgets, capital plans, and treasury policy, together with their quarterly monitoring. This is supported by the Finance and Strategy Working Group, a member/officer group, who conduct a detailed review of budgets prior to their presentation to the P&R Committee. The P&R Committee are responsible for monitoring progress in relation to service business plans and for approving the Comhairle's recently approved changes to its HR strategy.
71. An ICT, procurement and asset management sub committee, chaired by the Vice Chair of the P & R Committee, reports to the P & R Committee. It is responsible for the provision, construction, security and maintenance of all land and buildings and the formulation, monitoring and implementation of the Comhairle's policy and strategy in relation to land and buildings. It is also responsible for the formulation, monitoring, development and

implementation of information technology and procurement policies, strategies and procedures.

72. A key responsibility of the Audit & Scrutiny Committee is to undertake a corporate overview of the Comhairle's control environment and to review the adequacy of the policies and practices in operation to ensure compliance with relevant statutes, directions, standards and codes of corporate governance. The Audit & Scrutiny Committee is also responsible for approving the service level best value inspections and for monitoring their progress. They are supported by the Audit Panel, who review all internal and external audit reports including plans, progress reports and annual reports and ensure management implement the agreed recommendations.
73. The committees within the Comhairle are generally well attended by members and service department officers who respond to queries.

Internal control

74. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
75. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
76. As part of our work, we took assurance from key controls within the Comhairle's financial systems. The results of our review of key controls were reported to the Audit Panel in September 2011. The identified weaknesses in relation to the absence of sundry debtors control account reconciliations and certain bank reconciliations throughout the year were taken into account in our approach to the audit of the financial statements, resulting in additional audit testing of debtors' accounts and cut off testing. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course. All significant weaknesses are reflected in the SSIFC as noted in paragraph 13.
77. Arrangements for a disaster recovery site to support the Comhairle's business continuity planning have not progressed during 2010/11. It is hoped that discussions on sharing this service with partners with a similar need will be re-convened during 2011/12.
78. Internal Audit undertook an investigation in relation to the award of the ice gritting and snow clearing contract award for the period 2008 – 2012. The investigation report highlighted various issues and improvements to tendering procedures that require to be addressed immediately. The Comhairle's Internal Auditor recommended that "A review of contract tendering and award mechanisms within the Comhairle be undertaken by the Chief Executive, with a view to centralisation of tender evaluation and awards". Subsequent work by internal audit has highlighted other areas of non compliance with procedures that requires to be

addressed immediately. The Chief Executive has clarified the Comhairle's position and provided guidance regarding the procedures that should be followed prior to the award of a contract. A best value review of procurement contracts is planned in 2011/12.

79. We understand that further problems have arisen regarding the retendering of winter maintenance contracts resulting in the abandonment of the procurement process and the need to retender. This has resulted in existing contracts that should have come to an end requiring to be extended. A further investigation by internal audit is currently underway.

Refer Action Plan No 5

Internal Audit

80. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2010/11 audit we assessed whether we could place reliance on the Comhairle's internal audit function.
81. We concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in local government in the UK. We placed reliance on the payroll systems audit work carried out by internal audit in forming our opinion on the 2010/11 financial statements, together with a number of governance areas including WISP project management arrangements and capital contracts, as we anticipated in our annual audit plan.

Prevention and detection of fraud and irregularities

82. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
83. The Comhairle has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a reporting concerns at work policy; codes of conduct for elected members and staff; and defined remits for committees. Our review of governance arrangements and financial systems reported to management in July 2011 highlighted that the reporting concerns at work policy had not been updated since June 2000.

National Fraud Initiative in Scotland

84. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. The Comhairle has made little progress in past NFI exercises with no savings identified through the process. Since the Comhairle's fraud officer is currently on maternity leave, the Comhairle commissioned the services of a fraud officer from Glasgow City Council to investigate matches arising from the 2011 NFI. This is currently ongoing but we note that the matches investigated thus far have not produced any savings.

Housing benefit inspections

85. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the Comhairle in 2009 and a detailed report was issued including agreed improvement actions.
86. We recently followed up the 2009 report and found that although the Comhairle's benefits service demonstrates awareness of what constitutes an effective, efficient and secure benefits service, there has been a lack of progress to address the majority of the risks identified in our previous report. The Comhairle has recently seen a significant decline in its new claims processing performance and is now in the bottom quartile for all Scottish councils. This is partly due to the introduction of iDox and the resources required to scan and copy historical information into the system. Looking forward, the service's capacity to address the identified risks to continuous improvement with the limited and reducing resources that it has available to it is of concern.

Refer Action Plan No. 6

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

87. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in the Comhairle are satisfactory and we are not aware of any specific issues that we need to report.

Best Value, use of resources and performance

88. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
89. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
90. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
91. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
92. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
93. This section includes a commentary on the Best Value / performance management arrangements within the Comhairle. We also note any headline performance outcomes and measures used by the Comhairle and comment on any relevant national reports.

Management arrangements

Best Value

94. The first Best Value (BV) audit of Comhairle nan Eilean Siar was reported in August 2006. Since this time the Comhairle has implemented many of the issues that were agreed in its improvement plan.
95. In our 2009/10 annual report to members we highlighted our intention to carry out a BV audit of the Comhairle in 2011. Preliminary areas of our BV work were undertaken in 2010 and reported in our 2009/10 report. This focussed on the Comhairle's leadership and culture and capacity for change. The 2011 Assurance Improvement Plan for the Comhairle (reported to

members in June 2011) identified uncertainty regarding the Comhairle's progress against outcomes and strategic objectives due to the limitations of the performance management system. It also highlighted the need to further develop self-evaluation and expressed concerns around the pace of delivery of some corporate assessment areas. One of the main intentions of the 2011 BV audit was to help support the Comhairle in taking forward its improvement agenda.

96. Our BV audit work was carried out during summer 2011 and the report was issued concurrent to this report. The BV report concluded that the Comhairle's overall performance is satisfactory. It highlights:
- Partnership arrangements overall are still developing and the partnership is unable to effectively demonstrate progress on partnership outcomes. Our own analysis highlights mixed progress on the economy and natural and cultural outcomes. At an operational level, there are some good examples of joint working.
 - Most of the Comhairle's services are performing well. The Comhairle is aware it needs to improve services in waste management and fostering and adoption and is making progress in its building maintenance commercial operation. However, there is limited evidence to enable the Comhairle to demonstrate value for money of its services or customer satisfaction.
 - The Comhairle has introduced an electronic performance management system but has made slow progress in embedding a performance management framework. It needs to do more to develop the performance culture and demonstrate impact.
97. Our BV report concluded that the Comhairle has fair prospects for future improvement. In particular, it was noted that:
- The Comhairle's governance and scrutiny arrangements work well and there is strong political and community leadership. The chief executive and his management team need to demonstrate stronger leadership in taking forward performance management and continuous improvement.
 - The Comhairle and its partners share a clear vision for the Western Isles, there is a simple partnership structure and the expertise that all partners bring is recognised through their prominent roles within the partnership.
 - The Comhairle does not have a systematic approach to continuous improvement activity, although it has an established programme of best value service reviews.
 - The Comhairle manages its finances prudently but it needs a longer term financial strategy which takes into account the impact of demographic changes on future service provision.
98. The BV report recognises that the Comhairle has improved its pace of change; and that by addressing the above areas, particularly around embedding its performance management framework and implementing a systematic approach to continuous improvement, will support further progress in delivering Best Value for its communities.

Self-evaluation arrangements

99. Our BV audit concluded that the Comhairle does not have a corporate self-assessment process to help it identify where improvement is most needed. Some departments carry out self-evaluation work, for example in areas of the education and children's services department. The chief executive and his management team rely heavily on scrutiny and challenge from external auditors and inspectors to focus their improvement agenda alongside their programme of best value reviews.
100. The Comhairle is embarking on its third year of a programme of best value service reviews. The areas for review were selected by service directors, agreed with the CMT and approved by the Policy and Resources Committee. The reviews are carried out in accordance with clear guidance. On completion of each review an improvement plan is agreed within the appropriate service. The Comhairle has recently completed an internal best value review of the waste management service. This was a wide ranging review which highlighted the key issues that the Comhairle faces in order to improve the waste management service and to help meet future targets. The Comhairle are currently preparing an improvement plan in response to the review.
101. We welcome these recent improvements to self evaluation. However, due to areas for review being selected by service directors the process is not sufficiently robust as it lacks a firm evidence base for determining where improvement work is needed. There are also risks that improvement work is focussed within individual departments and that corporate and cross-cutting areas are not covered; and that improvement work is not sufficiently well prioritised and coordinated. Elected members are not involved in the process for evaluating and selecting areas for review.

Community/user engagement

102. The Comhairle demonstrates good self awareness of the issues that are important to the community, especially where local jobs and the economy are perceived to be under threat. The Comhairle, as part of the Outer Hebrides Community Planning Partnership, engages well with communities. The partnership held workshops in 2009 and 2011 to help it refine its SOA priorities. It undertook 12 community engagement events along with an on-line survey to find out how communities want the priority areas delivered. Through this work the partnership has recognised that it needs to raise awareness of what community planning is and what it means for the public.
103. The Comhairle consulted extensively with the community when determining its budget choices as part of the 2011/12 budget. This was a difficult exercise given the budget reductions. It aims to repeat this process during the lead up to setting the 2012/13 budget.

Overview of performance in 2010/11

Performance management

104. An effective performance management culture exists in organisations where the use of performance management is one of the main means of identifying and achieving improvement, officers and members talk openly about improving performance and performance management is seen as part of the job. In previous years we have recognised the introduction of the Interplan performance management system, but have reported to members the need to fully embed the performance management system and to develop a culture of ownership.
105. The BV report concludes that the Comhairle continues to make steady but slow progress in developing its performance management framework including developing a performance culture, having integrated and effective processes to measure performance and demonstrating action and improvements. The targets and indicators used in the Interplan system are linked to service business plans and national outcomes. Links to SOA local outcomes and corporate priorities could be clearer and more explicit. The Comhairle has some way to go in embedding a performance management framework. It therefore needs to sustain the progress it has recently made in this area.
106. The Comhairle's corporate improvement activity is not linked to its performance management system and agendas for CMTs do not routinely include items on corporate or departmental performance. The Comhairle needs to develop a more effective performance management culture as a matter of urgency.

Refer Action Plan No 7

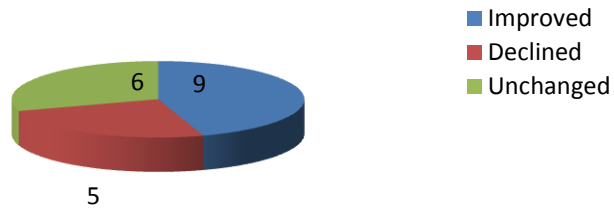
Comhairle performance measurement outcomes

107. Each service prepares a comprehensive quarterly report of the progress against its 2010/11 service business plan and performance objectives. The end of year report for 2010/11 summarises progress against actions and KPIs set for each department. The proportion of actions completed in 2010/11 range from 48% (Finance and Corporate Resources) to 86% (Social and Community Services). The proportion of KPIs meeting target range from 49% (Technical Services) to 83% (Chief Executive). We have not carried out any audit work to confirm the robustness of these figures.

Statutory performance indicators

108. In 2010/11, a total of 20 Statutory Performance Indicators (SPIs) were required and these show that performance has continued to improve as illustrated in Exhibit 3 below.

Exhibit 3: Improvements demonstrated by SPIs



Source: Comhairle nan Eilean Siar SPI data returns

- 109.** The improved indicators include cost of collecting council tax, percentage of invoices paid within 30 days, the number of attendances at indoor sports and leisure centres excluding pools, and the percentage of consumer complaints dealt with within 24 hours.
- 110.** The improved attendance at indoor sports and leisure centres excluding pools is largely due to the Comhairle's "Slainte Mhath" scheme. This is a reduced price access scheme for all sports facilities across the islands. By the end of March 2011 the scheme membership was 2,387, which equates to around 5,000 individuals. This is almost 20 per cent of the islands' population and exceeds the Comhairle's expectation on membership take up.
- 111.** The declining indicators include the days lost per employee through sickness, the cost of processing council tax benefit claims, the overall percentage of road network that should be considered for maintenance treatment, and the net cost of refuse disposal per premise.

National performance reports

- 112.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 4.

Exhibit 4: A selection of National performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none">• The cost of public sector pensions in Scotland• How councils work: an improvement series for councillors and officers - Arms-length external organisations• Scotland's public finances: responding to the challenges• Maintaining Scotland's roads: a follow-up report | <ul style="list-style-type: none">• Physical recreation services in local government• An overview of local government in Scotland 2010• Community Health Partnerships• Improving energy efficiency: a follow-up report• Transport for health and social care |
|---|--|

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

113. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government published detailed spending plans for years 2012/13 to 2014/15 in September 2011. These establish a framework that bodies can use to make future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

114. The Comhairle has managed its finances prudently over the short term and has retained uncommitted reserves over recent years at, or around, the planned £3 million mark. As noted in paragraph 64, the Comhairle has taken appropriate steps in preparing financial plans and identifying savings to reflect the anticipated reductions in local government settlements. Areas of savings, such as the voluntary severance scheme, budget choices and improved

procurement form part of the Comhairle's budget strategy and have been covered earlier in this report. Efficiency savings are likely to become progressively more difficult to achieve. It is therefore essential that initiatives such as the diagnostic pathway deliver savings; and that potential savings from shared services and the best value service reviews are delivered.

Community health partnerships

115. This report, published in June 2011, examines whether CHPs are achieving what they were set up to deliver, including their contribution to moving care from hospital settings to the community and improving the health and quality of life of local people. It also assesses CHPs' governance and accountability arrangements and whether CHPs are using resources efficiently. Given the move to integrate services, the report highlights issues for both NHS boards and councils to address. Information obtained during the course of the national report included a review of the governance and operational arrangements within Western Isles Community Health and Social Care Partnership (CHaSCP). Key messages in the report include:

- There are two types of CHP – a health-only structure and an integrated health and social care structure. Irrespective of structure, partnership working depends on good local relationships, a shared commitment and clarity of purpose.
- Partnership working for health and social care is challenging and requires strong, shared leadership by both NHS boards and councils. Differences in organisational cultures, planning and performance and financial management are barriers that need to be overcome.
- A more systematic, joined-up approach to planning and resourcing is required to ensure that health and social care resources are used efficiently.

116. The Comhairle and NHS Western Isles work jointly through the CHaSCP, a joint services committee and a joint liaison and planning group. The Audit Scotland report referred to above found that NHS Western Isles, the CHaSCP and the Comhairle were unable to identify a clear role for the CHaSCP to facilitate better joined-up health and social care services. The role of the CHaSCP committee and other partnership groups has become increasingly blurred. Although the CHaSCP is intended to be an integrated structure, NHS Western Isles and the Comhairle have their own separate managers and health and social care services are managed separately. The report was published recently and the CHaSCP intends to review its partnership arrangements.

Progress against audit risks identified in the Shared Risk Assessment

117. The Shared Risk Assessment (SRA) includes areas of scrutiny uncertainty, where associated audit and scrutiny activity was identified. The Assurance and Improvement Plan (AIP) update 2011 - 14 was issued in June 2011. The updated position regarding some of the areas of uncertainty or concern such as partnership working, performance management, asset

management, and procurement have already been covered earlier in this report. Other areas of uncertainty or concern were addressed in the Best Value report and are highlighted below.

Growing prosperity in a growing economy

118. The AIP update noted that this strategic priority remained an area of uncertainty until the Interplan system more fully demonstrated performance direction.
119. The Best Value report therefore used a variety of sources to identify the extent to which the Comhairle and its partners are achieving this strategic priority and the direction of travel. The Outer Hebrides Community Planning Partnership's (OHCPP) only report on progress to date was through the SOA 2009/10 annual report. This highlights mixed performance. It identified that progress had been made in social enterprise and that there had been an increase in the number of visitors to the islands but that there was slow progress in developing the renewable energy sector and improving Gross Value Added or GVA (a measure in economics of the value of goods and services produced in the area).
120. Our assessment of progress against the partnerships economic outcome reflects the partnership's assessment of mixed performance. Unemployment in the Western Isles at July 2011 was 6.7 per cent and has been rising since 2009 (5.9 per cent in 2010). This follows the current Scottish trend of rising unemployment, but remains below the Scottish average of 7.6 per cent. However, the average gross weekly earnings of full-time employees fell to £460.10 in 2010 from £493.20 in 2009, and is below the Scottish average of £486.90. This decline is in contrast to the year on year increases between 2006 and 2009.
121. The Comhairle has the second highest rate in Scotland for school leavers going onto positive destinations, including continued education, training and employment. The development of the University of the Highlands and Islands, with a campus based in Stornoway, has helped to provide some opportunities for continuing education without young people having to leave the islands.
122. The Comhairle's economic and community development service reported positive results to the end of 2010/11 for support for social enterprise and community projects. There were 36 community projects supported (target 24) and 18 social enterprises (target eight). The Comhairle is also creating and administering a Community Renewables Support Fund to enable the installation of renewable energies in communities.

Quality education in quality buildings

123. The AIP noted uncertainty regarding the Scottish Government decision to "call in" four of the eleven schools proposed for closure as part of the Western Isles Schools Project. The Comhairle is in the process of taking forward a judicial review into this decision. The Scottish Government has since called for a year long moratorium on the closure of rural schools.

Green council, green islands

124. The AIP noted that risks exist in the objective to increase recycling and reduce the amount of waste sent to landfill. Recycling increased from 18.6% in 2008/09 to 24.1% in 2009/10, but was expected to fall in 2010/11. This is well below the Scottish Government target of 40% by 2010 and is also the lowest in Scotland.
125. We issued a report to management in July 2011 highlighting progress made by the Comhairle in response to Audit Scotland's *Sustainable Waste Management* report issued in 2007; and in response to the Scottish Government's *Zero Waste Plan* proposals. We also commented on the Comhairle's progress in the Best Value report.
126. There are logistical challenges due to the Comhairle's remote location and other specific local circumstances such as the absence of any meaningful private sector partner, a limited local market for recycled materials and a prohibitively high cost of transporting recyclates to the mainland. However, this will not absolve the Comhairle of their requirements and targets under the Zero Waste Plan.
127. The Comhairle does not have a long term strategy for waste management. Waste is currently recycled using an anaerobic digester. This was constructed a few years ago and was largely funded by investment from the Scottish Government. The Comhairle has expressed a desire to create energy from waste, however, this would involve thermal treatment of a greater volume of waste than that currently allowed by the Scottish Government.

Development department - housing

128. The AIP highlighted that the Comhairle has a high level of homelessness and limited housing supply. A target of 40 new houses per annum until 2011 was agreed with Hebridean Housing partnership.
129. The BV report highlights that this target is being met but further progress is required to meet demand for affordable housing. The Comhairle is making good progress towards achieving the government's target for the abolition of priority need by 2012. Recent data shows that only 12 per cent of applicants were non-priority, a drop of ten per cent from 2008. The Comhairle can also demonstrate that it performs well in assessing homelessness cases compared with comparator authorities. In 2009/10 the Comhairle outperformed most of its comparator authorities for the percentage of decision notifications issued within 28 days, the percentage of people housed into permanent accommodation and the percentage of reassessments required. The most recent SPI data indicates that these trends have continued for most of these indicators, with the exception of reassessments for temporary accommodation cases and the percentage of permanent housing cases where people are housed into permanent accommodation.
130. The Comhairle plans to construct a homelessness unit in Stornoway.

Risk management

131. The AIP highlighted that risk management is beginning to make a more noticeable shift in the right direction. This includes risk registers being incorporated into Interplan and into service business plan objectives from 2011/12. While the AIP recognised that improvements were being made, it was too early to gauge the extent to which these would identify and manage all significant strategic and operational risks.
132. The BV report noted that the Strategic Risk Management Group (SRMG), which oversees risk management activity, was established in July 2008 and is chaired by the director of finance and corporate resources and includes representatives from all departments. The Best Value report highlighted that this group met three or four times a year but now meets every two months and is influencing improvements in risk management. The SRMG has helped to establish an action plan of risk management goals for the short, medium and long term. It is important that the action plan is monitored and that services are held to account for any slippage, inactivity, or failure to demonstrate how they are managing risks.

Outlook

133. We will carry out a follow up to the Best Value report in 2012/13. The Assurance and Improvement Plan update 2011 - 14 does not include any other specified activity by other scrutiny bodies over the next three years.
134. The Local Area Network will meet again in late 2011 to produce its Assurance and Improvement Plan update 2012 - 15. This will be presented to the Comhairle in Spring 2012 and will highlight changes to the plan and any consequent changes to planned scrutiny activity.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit and Scrutiny Committee or Audit Panel
Annual Audit Plan – Comhairle nan Eilean Siar	24 January 2011	10 March 2011
Review of adequacy of internal audit	10 February 2011	10 March 2011
Review of Early Severance Process 2010/11	10 March 2011	16 June 2011
Follow-up review of the Customer Relationship Management application system	3 May 2011	16 June 2011
Shared Risk Assessment / Assurance and Improvement Plan	16 May 2011	8 June 2011 (Audit & Scrutiny Committee)
Improving public sector purchasing follow-up	30 June 2011	21 September 2011
Sustainable Waste Management – Follow up work	8 July 2011	21 September 2011
Review of Governance Arrangements and Main Financial Systems	25 July 2011	21 September 2011
Report to those charged with governance on the 2010/11 audit	14 September 2011	21 September 2011
Audit opinion on the 2010/11 financial statements	21 September 2011	21 September 2011

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	37-38	<p>Capital investment and performance</p> <p>There was capital slippage, again, in 2010/11. Planned capital expenditure in 2011/12 has increased significantly from £15.4 million in 2010/11 to £21.3 million (excluding the WISP). This seems ambitious given slippage in previous years against much lower budgets, combined with the competing demands on resources due to the WISP.</p> <p>Risk</p> <p>Important or strategic capital projects may not be progressed.</p>	<p>The capital programme is constantly under review to enable the Comhairle to deliver its corporate priorities within the remainder of its term and the resources available.</p> <p>Reviews have been reported to the August and October series of meetings so far this financial year and resources have been re-allocated as a consequence. This should ensure that important and strategic capital projects are progressed.</p>	Director of Finance and Corporate Resources	March 2013
2	45-46	<p>Asset management</p> <p>Despite improvements, there is still insufficient evidence to demonstrate that property asset management is clearly linked to corporate objectives and service needs, or whether it drives the capital programme. There is also limited evidence of</p>	<p>(1) Produce an Asset Management Strategy Framework which collates individual Departmental property requirements and links to the corporate strategy and objectives.</p> <p>(2) Undertake a consultation exercise</p>	<p>Head of Assets and Infrastructure</p> <p>Head of Assets and</p>	<p>January 2012</p> <p>March 2012</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>working with partners to jointly rationalise assets.</p> <p>Risk</p> <p>Efficiencies from good asset management practices may not be attained; and asset management strategy may not be sufficiently aligned to the capital programme.</p>	<p>with partners and local organisations to establish opportunities for the sharing of premises and/or services.</p> <p>(3) Produce an Asset Management Plan which details objectives arising from the strategic framework.</p>	<p>Infrastructure</p> <p>Head of Assets and Infrastructure</p>	June 2012
3	47-49	<p>Procurement</p> <p>The Comhairle has not achieved conformance status in recent procurement capability assessments which monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.</p> <p>Risk</p> <p>The Comhairle may not meet good practice requirements for procurement or attain potential procurement savings.</p>	<p>Deliver the approved Procurement Capability Assessment Action Plan to ensure conformance is achieved in 2011.</p>	Head of Exchequer Services	November 2011
4	62-64	<p>Financial forecasts beyond 2011/12</p> <p>The Comhairle has a financial budget planning assumption of 5% savings requirements over each of the next three years. While there are</p>	<p>The September 2011 Scottish Budget and the three year settlement due in December 2011 will inform a longer term</p>	Director of Finance and Corporate Resources	February 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>processes/ strategies in place to help achieve this, it will become increasingly difficult to attain, particularly since there is no overarching financial strategy covering the longer term.</p> <p>Risk</p> <p>The savings and reductions currently being sought will be difficult to attain; and may not be linked to the Comhairle's longer term strategic requirements.</p>	<p>strategy that will be developed alongside the 2012/13 budget for consideration by the new Comhairle in May 2012.</p>		
5	78-79	<p>Internal control</p> <p>Investigations by internal audit have identified the need to review and improve tendering procedures, together with a need to more fully comply with current tendering requirements.</p> <p>Risk</p> <p>Failure to conduct a review and fully implement its findings could result in: contracts being awarded that are not cost effective; contracts being incorrectly awarded which could be challenged; and contracts which do not meet best value requirements.</p>	<p>Update procurement procedures and utilise the Procurement Steering Group to monitor compliance.</p> <p>Ensure all staff undertaking procurement activity can demonstrate competence by providing training and support.</p>	<p>Head of Exchequer Services</p> <p>Head of Exchequer Services</p>	<p>December 2011</p> <p>September 2012</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	85-86	<p>Housing benefit inspections</p> <p>The benefits service has struggled to implement improvements or to address all of the issues raised in our 2009 report on the service. It has also seen a decline in its new claims processing performance and is now in the bottom quartile for all Scottish councils.</p> <p>Risk</p> <p>The benefits service's capacity or ability to deliver necessary improvements is under threat.</p>	An improvement plan will be submitted to the December series of meetings for approval.	Head of Exchequer Services	December 2011
7	104-106	<p>Performance management</p> <p>The Interplan performance management system is widely used and incorporated into business plans. However, links to targets, SOA local outcomes and corporate priorities need to be clearer and more explicit. Also, senior management require to ensure that performance is routinely presented and appraised to demonstrate whether or not continuous improvement is being achieved.</p>	Amend business plan guidance to ensure that local outcomes, corporate priorities and targets are incorporated in 2012/13 business plans and performance is thereafter monitored on Interplan system.	Head of Executive Office	December 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>Risk</p> <p>Performance management may not be fully embedded and there could be an absence of ownership of improvement plans.</p>			