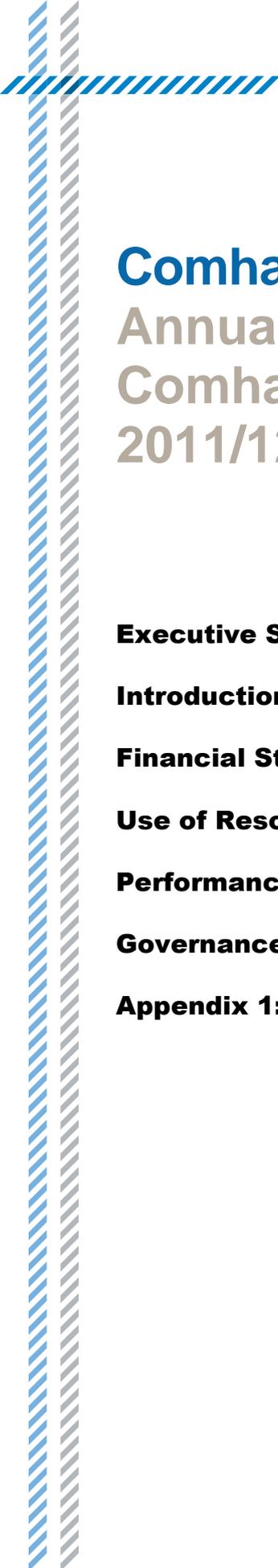


## **Comhairle nan Eilean Siar**

# **Annual Report on the Audit to the Comhairle and the Controller of Audit 2011/12**

**September 2012**



# Comhairle nan Eilean Siar

## Annual Report on the Audit to the Comhairle and the Controller of Audit 2011/12

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# Executive Summary

## Financial statements

We are pleased to report that our independent auditors' report contains an unqualified audit opinion on the financial statements for the year ended 31 March 2012. We also certify that the accounts have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

The Comhairle has prepared its financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code).

## Use of resources

The Comhairle achieved a general fund surplus of £3.531million in 2011/12. The general fund balance brought forward at 1 April 2011 of £14.644million increased to a cumulative net surplus of £18.175million at 31 March 2012.

The Comhairle incurred £56.072million in capital expenditure in the year, of which £38.487million related to the Western Isles Schools Project (WISP). Throughout the year, the forecast capital expenditure and total resources available to fund the capital expenditure fluctuated. The final outturn position showed a reduction in actual capital expenditure in the year and overall unspent capital budget available to be carried forward of £19.392million. The Comhairle's existing capital programme is due to be completed in 2013. To complete this programme, the Comhairle is forecasting capital expenditure (excluding expenditure on the WISP and local housing services) of £28.861million which is greater than the capital expenditure incurred in each of the past four years. There is a risk that the Comhairle does not have the capacity to deliver this programme. The Comhairle has agreed that projects not formally committed by 31 March 2013 will cease.

The Comhairle reports that the WISP remains on schedule and on budget. Three of the largest WISP schools became operational for the start of the new school year. There remains significant external and demolition works to be carried out which are due to be completed in January 2013.

The Comhairle has achieved revenue savings of £10.2million over the last three years. Looking forward however it recognises that further savings will need to be achieved from different areas of the organisation. The focus will be on identifying and achieving savings from asset management, human resources (reduction in overtime and sickness absence) and service choices. Asset management is a key area of development for the Comhairle. To date progress in developing overall asset management arrangements has been slow. Work is ongoing to develop a corporate asset management plan and individual sector and/or departmental asset management plans and asset inventories.

## **Best Value and Performance**

Audit Scotland has recently started its follow up of best value and community planning at Comhairle nan Eilean Siar. The audit will assess the overall progress the Comhairle has made against improvements required in the 2011 best value report and the adequacy of the Comhairle's improvement action plan. The findings are due to be published in December 2012. Due to the scope of this work and the work of internal audit during the year on performance management, our audit work in this area has been limited to our audit of the statutory performance indicators and the Comhairle's approach to considering national performance reports.

In terms of overall performance the Comhairle has reported that it is on track, across departments, to achieve many of its key performance indicators.

## **Governance**

We have reviewed the Comhairle's corporate governance arrangements in relation to risk management, prevention and detection of fraud and irregularity and standards of conduct, including the prevention and detection of bribery and corruption. We are pleased to report that governance arrangements appear to be appropriate and in line with our expectation. The Comhairle does however acknowledge that further work is required to embed risk management practices into every day practices.

## **Conclusion**

This report concludes our audit of Comhairle nan Eilean Siar for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance and Corporate Resources and members of the Comhairle's management team. We would like to thank all members of Comhairle nan Eilean Siar management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

**Scott-Moncrieff**  
**September 2012**

# Introduction

1. This report summarises the findings from our 2011/12 audit of Comhairle nan Eilean Siar. The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Audit and Scrutiny Panel at the outset of our audit.
2. The main elements of our audit work in 2011/12 have been:
  - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a 3 year rolling Assurance and Improvement Plan (AIP) for the Comhairle and a national scrutiny plan. Contributing to best value audits and other scrutiny responses agreed through the SRA process. Participating in the 2012 interim refresh of the scrutiny plans;
  - Audit of the financial statements, including a review of the annual governance statement;
  - Review of corporate governance arrangements, internal financial controls and financial systems;
  - An assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
  - Review of the Comhairle's response to Audit Scotland's national study reports; and
  - Provision of an opinion on a number of grant claims and returns including Whole of Government Accounts.
3. We have prepared detailed reports on a number of the areas noted above. The key issues arising from these outputs are summarised in this annual report.
4. This report is addressed to both Comhairle nan Eilean Siar and the Controller of Audit and will be published on Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Financial Statements

## Introduction

5. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Comhairle. In this section we summarise the key outcomes from our 2011/12 audit of Comhairle nan Eilean Siar's financial statements.

## Our responsibilities

6. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view, in accordance with law and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code) of the state of affairs of the group and of the Comhairle and of the income and expenditure for the year then ended;
  - whether they have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2011/12 Code;
  - whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003;
  - whether the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
  - whether the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.
7. We are also required to report by exception on certain matters including, for example, whether the annual governance statement does not comply with *Delivering Good Governance in Local Government* or if there has been a failure to achieve a prescribed financial objective.

## Independence

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

## **Legality**

10. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our audit procedures included the following:
  - Reviewing minutes of relevant meetings;
  - Enquiring of senior management and the Comhairle's solicitors the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
11. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

## **Responsibility for the Statement of Accounts**

12. It is the responsibility of the Comhairle and the Director of Finance and Corporate Resources to prepare the financial statements in accordance with the proper practices set out in the 2011/12 Code. This means:
  - Preparing financial statements which give a true and fair view of the financial position of the Comhairle at 31 March 2012 and its income and expenditure for the year then ended;
  - Maintaining proper accounting records which are up to date; and
  - Taking steps for the prevention and detection of fraud and other irregularities.

## **Overall Conclusion**

13. Our audit report is included on pages 71 and 72 of the annual accounts and is addressed to members of Comhairle nan Eilean Siar and the Accounts Commission for Scotland. The report was issued on 28 September 2012 and is unqualified. We also certify that the accounts have been prepared properly in accordance with applicable law, accounting standards and other reporting requirements.
14. Comhairle nan Eilean Siar is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We can confirm that Comhairle nan Eilean Siar's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.
15. The quality of the financial statements prepared by the Comhairle is of a good standard. Our thanks go to staff at the Comhairle for their assistance with our work.

## **Format of the Accounts**

16. The financial statements should be prepared in accordance with the 2011/12 Code. The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority and

to prepare group financial statements where there are material interests in subsidiaries, associates or joint ventures.

17. As part of our 2011/12 audit we considered the arrangements the Comhairle had in place to ensure compliance with the requirements of the Code. Overall we concluded that the Comhairle has complied with those requirements. The key findings arising from our audit of the financial statements are summarised in the sections below.

## Audit Adjustments

18. We identified no major errors or weaknesses during our audit. We have set out below the adjustments to the Comhairle single-entity financial statements processed during the audit. There was no impact on the Comhairle's usable reserves.

**Table 1 – Audit and accounting adjustments**

	<b>£m</b>
Surplus on the provision of services	(23.964)
<b><i>Accounting entries made during the audit process:</i></b>	
Cost of unfunded discretionary benefits to teachers	0.429
Revaluation of assets transferred out of assets under construction	7.967
Revaluation of assets held for sale	1.316
Update to holiday pay accrual	(1.395)
Disposal of ex HRA properties and land associated with Lewis Sports Centre	0.490
Reallocation of capital grants and contributions	0.227
<b><i>Surplus on the provision of services per the final accounts</i></b>	<b>(14.930)</b>
<i>Accounting entries to movement in reserves statement</i>	<b>(9.034)</b>
<b><i>Impact on usable reserves</i></b>	<b>Nil</b>

## Discretionary benefits

19. Discretionary benefits are retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under an authority's discretionary powers. Some employers pay the capitalised cost of discretionary benefits in the year in which they vest, but in most cases the approach is to pay the cost to the scheme each year. The liabilities associated with discretionary benefits are therefore identifiable at individual employer level, even where the assets in the main scheme are not. During our audit we noted that the Comhairle had not calculated its liability for the payment of additional years in respect of teachers' pensions. Instead the annual cost to the Comhairle was reported in the financial statements. The capitalised cost of these discretionary benefits for 2011/12 was calculated to be £3.294million. The financial statements have been revised to reflect this cost. An adjustment has also been made to the prior year financial statements to reflect this.

## **Property, plant and equipment**

20. During 2011/12 assets were transferred out of 'assets under construction' into operational land and buildings'. The assets were reflected at the same value (cost) in operational land and buildings. Assets under this category however should be valued on an existing use value. A valuation was obtained for these assets and as a result an impairment is shown in the financial statements (£7.967million).
21. The Comhairle classify a number of assets as 'held for sale'. We noted during our audit that on transfer of assets to this category they have not been valued at open market value. A valuation was obtained for these assets and as a result a net impairment is shown in the financial statements (£1.172million).

## **Short Term Benefits**

22. Short-term benefits include items such as wages and salaries, paid annual leave, sick leave and bonuses. In the draft financial statements, the liability for untaken annual leave was £2.655million at 31 March 2012 (2010/11 £2.405million). In 2011, the Scottish Negotiating Committee for Teachers set out proposed changes to the pay and conditions of teachers and associated professionals. These changes also included changes to annual leave entitlement. The liability for untaken annual leave has been updated to take account of these changes. The audited financial statements show a liability for untaken annual leave of £1.260million.

## **Potential Adjustments**

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

## **Key areas of audit focus and significant findings**

24. We are required by international auditing standards to report to the Comhairle the main issues arising from our audit of the financial statements. The most significant issues are noted below.

## **Remuneration Report**

25. Local authorities are required to prepare a Remuneration Report as part of their statutory annual accounts. A new requirement for 2011/12 is the disclosure of the Comhairle's use of exit packages. This disclosure includes the number and total cost of exit packages agreed, grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter. This disclosure needs to be analysed between compulsory redundancies and other departures.
26. The Comhairle agreed to a total of 66 exit packages during 2011/12, which represents a total liability of £2.410million. Of this eight exit packages were as a result of compulsory redundancies. 18 exit packages were awarded to teachers.
27. Within the Comhairle's draft financial statements the costs relating to compensatory added years for teachers were not included. Further work was performed to identify these costs and the exit

packages schedule has subsequently been amended to accurately reflect the total costs of exit packages agreed by the Comhairle during the 2010/11 and 2011/12 financial years. The impact of this adjustment was to increase the total cost of exit packages disclosed in the financial statements by £0.963million.

### Retirement Benefits

28. Like other local authorities, the Comhairle has a significant local government pension fund liability within the financial statements. The Comhairle participates in the Highland Council Pension Fund. The net pension liability reflects the Comhairle's share of pension fund assets and liabilities and is informed by an annual valuation undertaken by an independent actuary. The net retirement benefits liability increased significantly during the year, from £29.537million as at 31 March 2011 to £60.706million as at 31 March 2012 (table 2):

<b>Table 2: Comhairle nan Eilean Siar retirement benefits liability</b>					
	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Present Value of Funded Obligation	210.737	175.056	193.004	116.981	124.408
Fair Value of Scheme Assets	153.775	148.726	133.874	91.968	111.538
Present Value of Unfunded Obligation	3.744	3.207	3.738	3.798	3.753
<b>Net Liability</b>	<b>60.706</b>	<b>29.537</b>	<b>62.868</b>	<b>28.811</b>	<b>16.623</b>

(Source: Comhairle nan Eilean Siar Annual Accounts 2011/12)

29. Table 2 highlights the volatility within the pension liability. The main reason for the increase in pension liability since 2010/11 has been the reduction in the discount rate assumption from 5.5% to 4.6%. This assumption is based on actuarial guidance and reflects market yields. A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. The figures above do not include the liability associated with the teachers discretionary awards (paragraph 19).

### Group Accounts

30. The Code requires local authorities with interests in subsidiaries, associates or joint ventures to prepare group accounts in addition to their single entity financial statements for all material interests. Comhairle nan Eilean Siar has consolidated its interest in one subsidiary and three associates into its group accounts. All bodies within the group received an unqualified audit opinion from their external auditors.
31. We have audited the group accounts prepared by the Comhairle and the judgements made by the Comhairle on deciding which interests should be included or excluded from the group accounts. The audit report covers our audit opinion on the group accounts and is unqualified.

32. The overall effect of the inclusion of the Comhairle's subsidiary and associates on the group balance sheet is to reduce both reserves and net assets by £70.815million. This is primarily due to the pension liabilities for the three associates. All group bodies' accounts continue to be prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions.

### **Heritage Assets**

33. The 2011/12 Code introduced the requirement for authorities to account for tangible heritage assets in accordance with FRS 30 '*Heritage assets*'. Heritage assets can be defined as those which are intended to be preserved by the Comhairle for future generations because of their cultural, environmental or historical associations, and are held and maintained principally for their contribution to knowledge and culture.
34. Comhairle nan Eilean Siar has disclosed a number of heritage assets (£1.771million) in its financial statements. These include contemporary and archaeological artefacts, paintings, Comhairle regalia and archives. During 2011/12 the Comhairle reviewed and valued the assets to ensure they were accurately disclosed within the financial statements. We are satisfied with the approach adopted by the Comhairle in implementing FRS 30 and as this is a change in accounting policy, the previous year figures have been appropriately restated.

### **Trading Accounts**

35. Under the Local Government in Scotland Act 2003 the Comhairle has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The Comhairle periodically reviews its trading operations in order to identify any STOs. The most recent review was carried out in December 2011. In previous years the Comhairle has reported its Building Maintenance trading operation as an STO. Following the review in December 2011, this was reclassified as a trading operation and is no longer considered to be a STO. The reclassification is due to service changes which have led to the operation being down-sized. In 2010/11 Building Maintenance reported income of £3.2million in comparison to £1.1million income in 2011/12. We have reviewed the Comhairle's position and can confirm that this assessment is reasonable.

### **Trust Funds**

36. The Comhairle acts as sole trustee for twelve educational, social welfare and miscellaneous trusts. These 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.

### **Western Isles Schools Project**

37. The Western Isles Schools Project (WISP) has been the largest capital project undertaken by the Comhairle. This is a three year project to build six new schools across the Western Isles (The Nicolson Institute, Sir E Scott School, Point School, Westside School, Balivanich, and Daliburgh). The project has been undertaken on a hybrid model with construction and maintenance of the schools being carried out by private sector partners. The capital cost of the

construction has been funded through prudential borrowing and government grants. The project has been managed by Sgoiltean Ùra LLP, a partnership between the Comhairle and Sgoiltean Ùra (Investments) Limited, a wholly owned subsidiary of the Comhairle. Tenders were invited for the construction of the schools in November 2009 and in April 2010 FMP were named as preferred builder for the construction of the schools and FES FM Ltd were named as preferred bidder for the lifecycle maintenance and facilities management.

38. Sgoiltean Ùra LLP has responsibility for delivering the project. Five of the seven board members of Sgoiltean Ùra LLP are councillors, and the Head of Operations is seconded from the Comhairle's Department of Technical Services. On the Comhairle side the project is managed by the WISP Project Board, which includes the Chief Executive and the Leader of the Comhairle. The Comhairle has decided that these arrangements be retained until 31 March 2013, following which a Contracts Management Sub-Committee will be established to take over the responsibility for supervision and management of the WISP project.
39. The Comhairle reports that the WISP remains on schedule and on budget. Capital expenditure of £38.487million was recognised in 2011/12 on the project. This was partly funded through a project grant of £19.086million and an individual grant for Daliburgh School of £2.235million. Three of the largest WISP schools became operational for the start of the new school year. There remains significant external and demolition works to be carried out which are due to be completed in January 2013.
40. Internal audit carried out three reviews of the WISP project between March 2011 and February 2012. In total they have raised 41 recommendations, twelve of which were deemed to be of a "critical" nature. These have included "critical" recommendations relating to:
  - fuel, heating and boiler systems in the new schools;
  - road signage around the new schools;
  - Sgoiltean Ùra governance arrangements; and
  - tendering procedures.
41. The Comhairle should ensure that all internal audit recommendations are appropriately actioned.

## **Internal Audit**

42. Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. As required by the Code of Audit Practice, we have established appropriate working arrangements with the Comhairle's internal audit function.
43. In accordance with the Code of Audit Practice and International Standards on Auditing 610 – considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment".

44. We have reviewed the Comhairle's internal audit arrangements to ensure that the work of internal audit is of sufficient quality and volume and complies with best practice. In carrying out our review we have assessed internal audit against the standards within the Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code). Our review concluded that the Comhairle maintains an effective internal audit function and that we were able to rely on the work of internal audit during 2011/12 in a number of areas.

## **Systems of Internal Financial Control**

45. To comply with the requirements of International Standards on Auditing (ISAs) and to facilitate an efficient audit, we have considered the Comhairle's key accounting systems and internal financial controls. As reported in our interim audit report, we have found the Comhairle's internal financial controls are well designed and operating at an effective or adequate level. We did however raise, in our interim report, a number of recommendations which should further enhance the control environment.
46. During the year internal audit carried out a detailed review on the Non Domestic Rates (NDR) system and concluded that substantial improvements are required over this system. Internal audit raised a number of 'critical' recommendations to improve the effectiveness of the controls over this system. In light of internal audit findings, we reviewed the scope of our audit work to gain assurance over the NDR account as reported in the financial statements. Overall we concluded that the NDR account as reported in the financial statements was free from material misstatement.

## **Annual Governance Statement**

47. Comhairle nan Eilean Siar has published a group annual governance statement within its 2011/12 financial statements. This is the first year the Comhairle has published an annual governance statement. Previously it had included a statement on the system of internal financial control (SIFC) in its financial statements. Scottish local authorities can voluntarily choose to publish a governance statement rather than a SIFC and we acknowledge the Comhairle's decision to publish such a statement ahead of any possible statutory requirement to do so. The statement covers all significant corporate systems, processes and controls, spanning the whole range of the authority's activities.
48. The Code introduced a new requirement during 2011/12 that local authorities should disclose within the annual governance statement or SIFC a specific statement on whether the authority's financial management arrangements conform to the requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010). Our review of the Comhairle's annual governance statement has confirmed that this required disclosure had been made.
49. The Comhairle has concluded that its governance and internal control arrangements are largely effective and able to provide reasonable and objective assurance that significant risks impacting on the achievement of the Comhairle's principal objectives will be identified and actions taken to avoid or mitigate their impact. This is consistent with our knowledge and understanding of the

financial control framework operating at the Comhairle. We also concluded that the disclosure included within the statement is in line with the requirements as set out in the Code.

## **Looking Forward**

50. The Police and Fire Reform (Scotland) Act 2012 received Royal Assent in August 2012. It establishes the Police Service for Scotland and the Scottish Fire and Rescue Services and abolishes the current territorial forces and their governing bodies (e.g. Northern Joint Police Board and the Highland Islands Fire Board) from 1 April 2013. The creation of these new services will impact on the Comhairle's group and financial reporting in future years.

# Use of Resources

## Introduction

51. In this section we summarise the key aspects of the Comhairle's reported financial position and performance to 31 March 2012. We also consider and report on the Comhairle's arrangements in relation to asset management and workforce related issues.

## The Comhairle's financial performance in 2011/12

52. The Comhairle achieved a general fund surplus of £3.531million in 2011/12. The general fund balance brought forward at 1 April 2011 of £14.644million increased to a cumulative net surplus of £18.175million at 31 March 2012.

53. Of this balance, £14.096million has been earmarked for specific purposes including for example the Western Isles Schools Project (£4.686million), Sgoiltean Ùra Loan (£1.774million) and private sector housing (£2.565million). The unallocated general fund balance of £4.079million (2010/11 £3million), is in excess of the Comhairle's policy to maintain a minimum of £3million uncommitted reserves.

54. The table below shows the balance on the Comhairle's cash backed funds at 31 March 2012 compared to the previous year. At 31 March 2012 the Comhairle has total cash-backed funds of £20.564million, an increase of £3.552million on previous year. This was largely attributable to the surplus generated on the Comhairle's general fund.

**Table 3: Comhairle nan Eilean Siar cash-backed funds**

	2011/12 £m	2010/11 £m	Movement £m
General Fund balances	18.175	14.644	3.531
Capital Fund	1.306	1.306	0
Capital Grants Unapplied Account	0.266	0.371	(0.105)
Capital Receipts	0.817	0.691	0.126
<b>TOTAL</b>	<b>20.564</b>	<b>17.012</b>	<b>3.552</b>

*(Source: Comhairle nan Eilean Siar Annual Accounts)*

55. The Comhairle's total reserves however reduced in comparison with the previous year (reduction of £15.974million) due to a reduction in unusable reserves. The reduction was primarily due to a downward movement in the pension reserve, offset by an increase in the capital adjustment account reflecting capital grants and contributions applied to finance capital expenditure in the year.

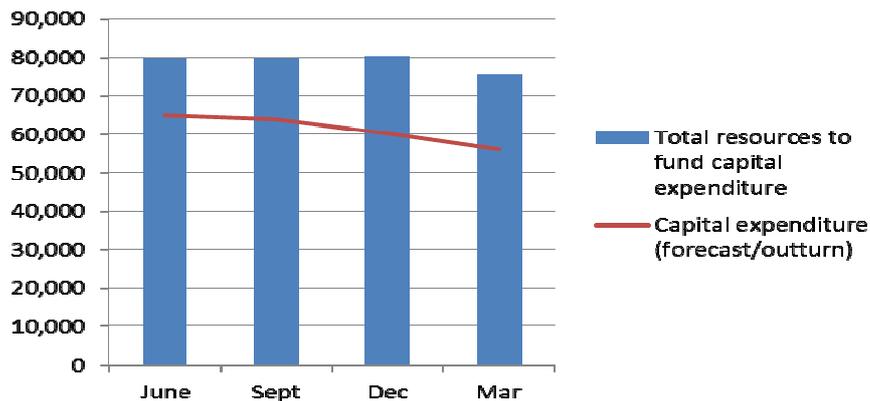
56. The general fund surplus of £3.531million achieved in 2011/12 compares favourably to a budgeted surplus of £3,000. Savings against budget include for example:

- Movements in earmarked funds relating to the Western Isles Schools Project (£1.434million)
- Movements in earmarked funds relating to the Private Sector Housing Grant (£0.560million)
- Underspend on Winter Maintenance (£0.304million)
- Increase in Council Tax income against budget (£0.285million)

## Capital performance

57. Actual capital expenditure for the 2011/12 year was £56.072million, of which £38.487million related to the Western Isles Schools Project (WISP). The total resources available to fund capital expenditure and the forecast capital spend is reported to the Policy and Resources Committee on a quarterly basis. For the first quarter, the Comhairle reported total resources available for capital expenditure of £79.593million of which £18.752million related to funds carried forward from 2010/11. Total forecast spend for the first quarter was £64.918million which resulted in surplus funds of £14.675million. The figure below shows the total resources available and forecast/outurn capital expenditure reported during the year.

**Figure 1 – Summary of capital resources and forecast capital expenditure**



**Source:** General Fund capital monitoring reports presented to Policy and Resources

58. The final outturn position showed both a reduction in total resources to fund capital expenditure and actual capital expenditure incurred during the year. Overall unspent capital funding carried forward increased to £19.392million (2010/11 £18.752million carried forward). In comparison with the forecast spend in June 2011, the actual capital expenditure incurred had reduced by £8.847million. This was due to a number of projects slipping (including slippage on the WISP project of £7.836million).
59. Slippage on the capital programme has been reported to the Comhairle over a number of years. 2011/12 was an exceptional year, in which the Comhairle delivered £38.487million capital spend against its WISP project along with £16.199million against its 2011/12 capital programme and £1.385million on local housing services. On review of the level of capital expenditure over the life of the capital programme (2008-13), the Comhairle has incurred the following capital expenditure against its capital programme (excluding the WISP project and local housing):

**Table 4: Comhairle nan Eilean Siar capital spend over the last four years**

	2008/09 £m	2009/10 £m	2010/11 £m	2011/2 £m	TOTAL £m	Budget 2012/13 £m
Total capital expenditure	15.430	14.699	15.435	16.199	<b>61.763</b>	28.681

**Source:** General Fund capital monitoring reports presented to Policy and Resources

60. Looking forward, the Comhairle is forecasting capital spend of £46.065million (comprising £28.861million on the capital programme, £16.082million on WISP and £1.302million on local housing services). This leaves £9.830million resources available to fund projects not yet approved.
61. While the level of capital spend on the WISP project will significantly reduce in 2012/13, the forecast level of spend against the capital programme is significantly higher than has been achieved over each of the last four years of the capital programme. Whilst past experience shows that the spend in the final year of the Comhairle's capital programme is higher there is a risk, based on previous results, that the Comhairle's does not have the capacity to deliver all capital projects over the 2008-2013 period of the capital plan. As 2012/13 is the final year in the five year programme, it has been agreed by the Comhairle that all projects not formally committed at 31 March 2013 will cease on this date, which could lead to necessary capital improvements being delayed. This may also result in significant resources being carried forward into future years.

**Action plan point 1**

## **Future financial position**

62. In June 2012, the Policy and Resources Committee considered a strategy for the setting of the Comhairle's budget for 2013/14 and 2014/15. 2012/13 was the first of a three year settlement from the Scottish Government and in 2012 the Comhairle agreed to develop a three year strategy that would run until 2015. The Comhairle has forecast that savings of £3.166million and £3.342million will need to be identified over 2013/14 and 2014/15 respectively.
63. Over the past three years, the Comhairle has realised £10.2million in savings to balance the budget; £5.2million in efficiencies and £5million of service reductions. Due to the level of savings achieved to date, the Comhairle believe it is not realistic to assume savings can be made from further efficiencies. Looking forward therefore, the Comhairle intend to achieve further savings in asset management, human resources (reduction of overtime and sickness absence) and service choices (such as service redesign, joint working, outsourcing and service reduction). Although the Comhairle maintains a policy of avoiding compulsory redundancy, to achieve savings a further reduction in staff numbers is forecasted.

## Resource and demand pressures

64. The public sector as a whole faces a number of significant cost pressures, making it difficult to reduce costs, while maintaining service standards. Service demand is increasing and is likely to increase in the future, due to an ageing population, the effects of the recent recession and the increased expectations of the public. This places pressure on the ability of public bodies to provide efficient and quality services at a time when budgets are already under pressure and reducing.
65. At a local level we noted the following cost pressures facing the Comhairle. These have been built into the Comhairle budgets where appropriate:

### Demand Pressures

Demand pressures, being a consequence of demographic change and an ageing population, are of particular relevance to Comhairle nan Eilean Siar. The birth rate in the Outer Hebrides is generally one of the lowest in Scotland, while the death rate is consistently the highest. It is projected that there will be a 51% decline in the number of annual births from 252 in 2010/11 to 124 in 2034/35. 25% of the population is of pensionable age in comparison to the Scottish average of 20%. By 2035 the Outer Hebrides is projected to have the highest percentage of pensioners in Scotland (35%). The changing age profile of the islands' communities presents challenges for service provision, particularly in relation to social care and health services.

In its 2012/13 budget the Comhairle made an additional provision to help meet the budget growth in home care.

### Financial Pressures

In setting the 2012/13 budget the Comhairle made specific reference to changes in the Department of Work and Pensions (DWP) subsidy, noting that the DWP have reduced subsidy paid to the Comhairle. It is anticipated that the DWP will seek to further reduce costs as part of Welfare Reform. A reduction in Council Tax Benefit of 10% has been identified by the Comhairle and a number of proposals where efficiency savings are planned to be made have been included in the budget.

### Workforce Pressures

Pay and pension costs have been identified as workforce pressures faced by the Comhairle. The 2012/13 budget assumes a continuation of the pay freeze for all staff groups. Departmental budgets have been amended to reflect shifts in the balance of pension costs and the final stage of Single Status.

### Investment Pressures

The budget includes an assumption that new long-term borrowing will be at 5.5% and short-term borrowing at 1%. The Comhairle's capital programme 2013-18 indicates a significant reduction in capital funding available.

### Maintaining Assets

The Comhairle identified a number of budgetary pressures in this area, namely backlog maintenance on roads; costs relating to the current condition and suitability of schools; the requirement for investment in care; and the Comhairle's increased dependence on information technology infrastructure. The Comhairle has noted that

the investment required to fund these costs is likely to significantly exceed the available resources; therefore, the allocation of funding will be performed on the basis of priority.

### Environmental Pressures

The Comhairle does not currently budget for costs to reduce carbon emissions. To date the Comhairle has not had to make payments in terms of the carbon emissions reduction scheme. This is due to the Comhairle's carbon emissions falling below the threshold above which carbon emission become chargeable. Other environmental pressures have been considered, such as landfill tax, where the Comhairle has noted that waste management continues to be a major pressure.

## Asset management

66. The Comhairle continues to develop its approach to asset management however progress has been slow to date. The Comhairle has developed a high level strategy on asset management. This however has yet to be cascaded throughout the organisation. Towards the end of 2011/12 work began on developing individual departmental asset management plans, which are designed to link operational asset management to service business plans. At the time of our audit however only one department, Education and Children's Services had developed a comprehensive draft plan for the period 2012/13 to 2017/18.
67. In July 2012 representatives from all the services attended a presentation and training session, on developing asset management plans and to identify potential asset sharing between services. As a result of this session, the Comhairle has identified a number of ways to share assets rather than buying or leasing them. This improved communication between departments should be maintained to ensure future savings can be identified.
68. In June 2012 the Policy and Resources Committee agreed to a strategy for the Comhairle's five year programme for the period 2013/14 to 2017/18. An outline asset management plan is being developed that draws together the core and statutory works estimated to be required by the Comhairle over the next five years. The Comhairle intend to allocate capital grant funding to the core and statutory works as a priority.
69. The Comhairle has entered into separate agreements with Highlands and Islands Enterprise and the Northern Constabulary to share assets. The Comhairle is currently working with the Scottish Futures Trust to extend links with external organisations to potentially identify further ways to share assets with the wider community.
70. The Comhairle must continue to develop its asset management arrangements. Asset management plans and asset inventories across sectors and/or departments should continue to be developed to ensure departments are more aware of their own requirements and alternative options available from other departments. Information on running costs and environmental impact should be made available to services to enable them to benchmark their arrangements and to identify more efficient practices.

**Action plan point 2**

## **Treasury management**

71. As at 31 March 2012 the Comhairle held cash and cash equivalents of £16.532million. The year-end position is £3.601million higher than the prior year comparison of £12.931million, although in 2010/11 the Comhairle also held £21million of short term investments for which there is no current year comparator. Surplus funds have been invested in line with the 2011/12 Investment Strategy.
72. The Comhairle is in a net borrowing position with substantial long term loans outstanding at the balance sheet date. Borrowings amount to £153.192million at the year end; these are split between £151.178million of Public Works Loans Board (PWLB) debt and £2.014million in Money Market debt. In total this is a decrease of £4.692million on the previous year's debt (£157.884million). The drop is principally due to PWLB loans of £7.0million reaching maturity in the year. In addition a PWLB loan of £1.337million due to mature in 2042 was repaid early, incurring a premium of £1.404million. The early repayment represents a net saving to the Comhairle due to the interest rate on the loan being 10.375%. A new PWLB loan was taken out in the year of £4.75million, at a rate of 2.94%, which will mature in 2021.
73. Gross external debt at 31 March 2012, as noted above, was £153.192million which is within the Council's capital financing requirement (CFR) of £156.841million. In 2010/11 the Comhairle's gross external debt exceeded its CFR by £14.165million. Ensuring that net external borrowing does not exceed the CFR over a three year cycle is seen as a key indicator of prudence within the 2011 Treasury Management Code. Authorities are required to demonstrate that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The Comhairle has been able to demonstrate that net of short term investments and cash and cash equivalents the borrowing transactions noted above do not exceed the CFR.

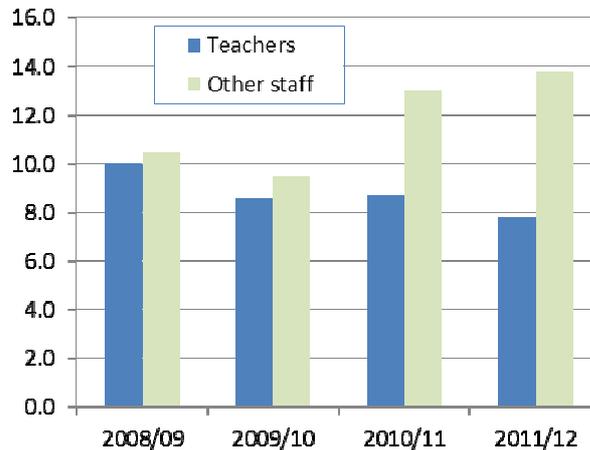
## **Workforce management**

74. The Comhairle has recognised that its current arrangements for monitoring and reporting on workforce management issues are not effective. The Comhairle is therefore working on implementing a new HR and payroll system. The timetable for the implementation of this project is not yet finalised and the Comhairle is working on developing budgets and achievable timescales for implementing the system.
75. Since 2008/09 sickness absence levels at the Comhairle have increased significantly. Absence levels for all Comhairle staff (excluding teachers) have risen from 10.5 lost days in 2008/09 to 13.8 lost days in 2011/12 (figure 2). Absence levels for teaching staff however have decreased from 10 days lost in 2008/09 to 7.8 days in 2011/12.
76. The underlying cause of changes in sickness levels is not known to the Comhairle. There are half yearly reports to the HR Sub-Committee that provide information on all departments, including sickness levels. The Comhairle has also just introduced a more detailed reporting

format at Service level and the first report in this series, in relation to HR, was considered by the HR Sub-Committee in August 2012. We would encourage the Comhairle to investigate and identify the causes for the changes in absence levels, especially as this is an area where the Comhairle intend to generate savings over the coming years.

**Action plan point 3**

**Figure 2 – Days lost to sickness absence**



**Source:** *Statutory Performance Information published by Audit Scotland*

### **Succession Planning**

77. The Comhairle has identified its workforce planning arrangements as an area for improvement. In 2011 the HR Sub-Committee approved a workforce planning policy for the Comhairle. This policy states that directorates are not effective at identifying future needs and then planning to ensure they have the right staff with the right skills in the right place at the right time. Further work is required to develop and embed workforce planning.
  
78. Succession planning is now becoming a key priority for the Comhairle. 60% of the Comhairle's staff are 45 years of age or older, with almost half of these being aged 55 or older. The Comhairle must therefore ensure that it is effectively planning for future generations of its workforce. The Comhairle is struggling to recruit sufficient numbers of home carers and the reducing number of residents of working age is further evidence of why implementing effective succession planning arrangements is a priority for the Comhairle.
  
79. In addition to the Comhairle, NHS Western Isles is actively seeking practical solutions to this problem. NHS Western Isles is the lead partner in a group of partner agencies looking at the difficulties faced by remote and rural areas in recruiting and retaining staff. This group is part of the European Northern Periphery Programme which aims to develop the economic, social and environmental potential of rural and harsh climate areas within specific EU member states. The Comhairle is committed to supporting the aims and objectives of the recruit and retain project, however is unable to commit staff resources to the project. Instead Comhairle staff are closely engaged with health colleagues to be kept abreast of developments and findings from the project.

## **Service Level Agreements**

80. There is limited data and information on SLAs within the Comhairle. In reports to the HR Sub-Committee and the Audit and Scrutiny Committee in August and September 2012 the Chief Executive stated that up to date SLAs are not available and indicated that the number of SLAs reported was based on staff feedback rather than detailed information.
81. The HR function has taken the lead in ensuring that SLA's are developed and implemented across the Comhairle. These include SLAs developed internally between departments and SLAs in place with external providers, for example for occupational health and print room facilities. The Comhairle is committed to formalising and updating all SLAs but the HR function has not set out timescales for when this work will be undertaken or identified the lead officers for this work. Therefore the committees are not able to ensure that this work is delivered within expected timescales or hold lead officers accountable. Management must develop an action plan identifying and formalising all SLAs within its HR function. This action plan must set out clear timescales and lead officers for each action.

*Action plan point 4*

## **Looking Forward**

82. The Comhairle recently won a judicial review for the closure of 4 schools following a challenge initiated by the Scottish Government. All 4 schools were due to close in 2012 however due to an appeal by the Scottish Government the closure of the schools has been deferred. For one school the Comhairle has changed its decision and has agreed to retain it. The appeal is scheduled to be heard in November and a judgement should be forthcoming within three months. This means that any closures will take place from August 2013. The cost of the delay in closing these three schools is approximately £500k which has been built into the 2012/13 budget.

## **Welfare reform**

83. The UK government's Welfare Reform Act received Royal Assent on 8 March 2012. This is the biggest reform of the UK welfare system for 60 years and promises to change the lives of millions of households by creating a new Universal Credit for working age claimants.
84. The main drivers for this legislation are to improve work incentives, simplify the benefits system, tackle the administrative complexity of existing systems and deliver savings.
85. The provisions in the Act will result in a number of significant changes for how local authorities deliver services. Universal Credit will end the devolved administration of housing benefit. Council tax benefit will be replaced by a Scottish council tax reduction scheme from April 2013. There will also be a shift in terms of the delivery of services such as the Social Fund, community care grants and benefit fraud investigations. Going forward, the role councils will play in the delivery of welfare reforms is not yet clear although there is an expectation that councils will provide some face to face support to benefit claimants.

86. It will be important for councils to manage down their housing benefits services while at the same time retaining sufficient capacity to provide face to face support to claimants. Local authorities need to communicate welfare reform HB changes accurately and effectively to local residents and other stakeholders. The number and complexity of the changes will require significant training and development activities to be undertaken by local authority staff.
87. The introduction of a Single Fraud Investigation Service (SFIS) will result in council staff currently employed on benefit investigations working under the SFIS policies and procedures from 2013. The staff will remain employed by councils in the short term with the intention that they will transfer to the SFIS at a later date. The SFIS will not however cover fraud in the new Scottish council tax reduction scheme. The Comhairle will therefore need to consider how to tackle fraud in this area

# Best Value and Performance

88. This section of the report looks at the arrangements in place to deliver best value and performance management arrangements within the Comhairle. An effective performance management system is a key component in the effective monitoring and management of public sector resources.

## Best Value

89. In November 2011, the Accounts Commission published its findings following its audit of best value and community planning at Comhairle nan Eilean Siar. The Commission concluded that Comhairle nan Eilean Siar's overall performance is satisfactory and it has fair prospects for future improvement. The Commission last assessed the Comhairle's best value arrangements in 2006. Since then, the Commission concluded that there has been slow progress overall and highlighted the need for better progress in areas including the leadership and culture of challenge and improvement; identifying and implementing improvements and the Comhairle's approach to continuous improvement. While the Comhairle has put some of the basic building blocks in place for providing best value, there remained significant aspects requiring progress, particularly in relation to financial planning, performance management, asset management, risk management and procurement. In their findings the Commission stated that they required a progress report from the Controller of Audit in approximately 12 months' time.
90. Audit Scotland has recently started its follow up audit of best value and community planning at Comhairle nan Eilean Siar. The audit will assess the overall progress made by the Comhairle against the improvements identified in the best value report and assess the adequacy of the Comhairle's improvement action plan (presented to the Policy and Resources Committee in June 2012). Detailed work is due to be carried out on five key areas of improvement including performance management, partnership arrangements, continuous improvement; activity improvement and customer satisfaction. The findings are due to be considered by the Accounts Commission in November 2012 and subsequently published in December 2012.

## Performance management

91. The Comhairle measures its performance against its strategic priorities and objectives as set out in its Corporate Strategy (2007-2011). Each service within the Comhairle sets out its objectives and targets within a service business plan. Performance against service business plans and the Comhairle's strategic objectives are reported on a quarterly basis to the relevant service committees and to the Comhairle's Policy and Resources Committee.
92. The Corporate Strategy ended in 2011 but has been extended by one year to allow for a new strategy to be aligned with the new Comhairle, following the 2012 elections. The revised Corporate Strategy will cover the period 2012-2017. The new corporate strategy has been discussed at a member's seminar and is now out for consultation with the public and the community planning partners. The outcome of this consultation will be considered by the

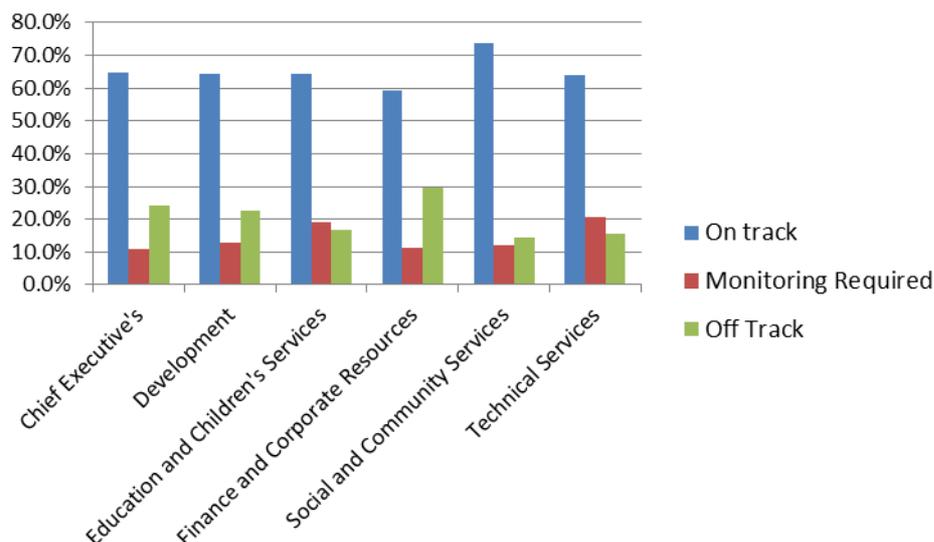
Comhairle in September 2012 where it will decide whether further consultation is required in order to agree the strategy in October / November 2012. The Comhairle intends to document the link between its new Corporate Strategy and its performance indicators as well as any relevant national and local outcomes from the single outcome agreement (SOA).

93. A key aspect of Comhairle’s performance management arrangements is its Public Performance Reporting arrangements (PPR). The Comhairle publishes an annual public performance report in the style of a calendar and a half year performance report. In addition to these reports, developed specifically for external stakeholders, the Comhairle publishes all the quarterly performance reports it presents to committee on its website. Therefore the interested stakeholder can access performance reports throughout the financial year.
  
94. The Accounts Commission, as part of the best value and community planning audit, reported that there is scope for improvement in the Comhairle’s performance management arrangements. Since that time, the Comhairle has undertaken significant efforts to develop and embed effective performance management arrangements. The Comhairle’s internal audit function carried out a review of performance management and monitoring arrangements in July 2012. This review identified a number of areas where the Comhairle could further develop and improve its performance management arrangements. As noted above, this is also an area which Audit Scotland will review as part of its best value and community planning follow-up. Due to the work carried out by Audit Scotland and the Comhairle internal auditors we have not considered the Comhairle’s performance management arrangements in detail during the our audit.

**Performance as at 31 March 2012**

95. As shown in figure 3 below, the Comhairle is on track, across departments, to achieve many of its key performance indicators. It has however identified slippage in some key indicators. We also noted for a sample of key performance indicators reviewed, performance has not improved since the previous year (table 5).

**Figure 3: End of year progress against key performance indicators**



**Source:** Service Business Plans 2011/12 – end of year report (June 2012)

**Table 5: Comhairle performance information (sample)**

Key performance indicator	Target 2011/12	Actual performance 2011/12	Actual performance 2010/11
Average number of working days per employee lost through sickness absence	9.0	13.81	12.87
% of non-householder planning applications dealt with within 2 months	80%	64.99%	64.57%
Housing Benefit and Council Tax Benefit: No of days to process a new application	30	43.65	39.63
Total tonnage of municipal waste composted	2,800	2,307	2,357
% of road network that should be considered for maintenance treatment	45%	51.80%	48.84%

*Source: Service Business Plans end of year progress reports 2011/12 and 2010/11*

## Statutory Performance Indicators

96. One of the ways of measuring local authority performance is through the statutory performance indicators (SPIs). The 2010 Direction (applicable to 2011/12) requires that local authorities performance reporting covers two main requirements:
- That local authorities report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
  - That local authorities report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2)
97. In reporting against SPI 1 and SPI 2 above, all local authorities are required to report performance against 25 specified indicators. As the Comhairle does not hold housing stock it reports performance against 20 of the 25 specified indicators. In addition, local authorities must select a range of non-specified indicators to demonstrate best value and compliance with the 2010 direction. In order to meet the requirements of the Direction, the Comhairle report on a further 22 Local Performance Indicators (LPIs). The range of indicators to be reported is considered by the Comhairle annually and approved by the Audit and Scrutiny Committee before the beginning of the year.
98. The Comhairle reports performance against the 20 specified indicators on its website (before 30 September 2012). An annual public performance report is to be published which will include performance against specified and non-specified indicators. The report will be published on the website and distributed in hard copies through Comhairle offices, schools and libraries.
99. During the year the Comhairle's internal audit service carried out a review of the arrangements over the collection and reporting of performance indicators. Internal audit concluded, based on the sample of indicators audited, that appropriate procedures and systems were in place to ensure the relevant information is gathered for publication and that information was accurate and complete. We also carried out audit testing on a sample of the Comhairle's indicators. Overall

we concluded that the arrangements for the collation of performance information, for the sample tested, was appropriate and adequate. For one local indicator tested (*“Percentage of annual spend with suppliers that is covered by a contract (where total spend in year is > £25,000)”*) however we noted the following:

100. This indicator was new in 2011/12 and the figures used are taken from the nationally held ‘Spikes Cavell’ database. At the time the performance information was produced however the required report was not available from the ‘Spikes Cavell’ database.

**Action plan point 5**

## **National performance reports**

101. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. There is an expectation that local government bodies review the national studies relevant to them and action them accordingly. As external auditors, we consider whether the Comhairle has discussed the national report at a committee; whether the Comhairle has carried out a self-assessment against the national report and as a result has produced a separate action plan to take forward any improvements, allowing the Comhairle at least six months to deal with the report after publication.
102. At Comhairle nan Eilean Siar, Directors are responsible for ensuring that national reports are presented to the relevant service committee.

## **Maintaining Scotland’s Roads: a follow-up report**

103. The Audit Scotland report *‘Maintaining Scotland’s Roads: a follow-up report’* was published in February 2011. The report examined progress on implementing the recommendations contained in Audit Scotland’s *Maintaining Scotland’s roads* report published in 2004. In June 2012 we carried out a targeted follow up review to assess the progress made by the Comhairle in seeking to improve its road maintenance activities. Our findings and recommendations have been presented to the Comhairle in a separate report.
104. As part of its four-year road asset management planning project the Society of Chief Transport Officers in Scotland (SCOTS) set out a timeline by which time all councils were required to have a complete Road Assets Management Plan (RAMP) in place. To enable this timetable to be met all councils were required to have a rudimentary plan place by 2011. The Comhairle has substantially completed the required tasks for the compilation of the RAMP in line with SCOTS timescale but this has not been fully collated or presented to and approved by elected members.
105. The Comhairle reports on a suite of key performance indicators for its road maintenance activities. Comhairle nan Eilean Siar reports both its road maintenance backlog and road condition figures at least annually. As part of the road asset management project, SCOTS has been developing a suite of performance indicators for councils to use. The Comhairle is reporting against eleven of the twelve core performance indicators and against 46 of the 50 secondary and statistical indicators for carriageway and footways. The one core performance indicator which the Comhairle is not reporting relates to the responsiveness of customer service

enquiries. The Comhairle has a system to record response times but is still to issue guidance to ensure consistent time recording.

106. The Comhairle is looking to develop schemes to maximise value for money in road maintenance activities but it is too soon to assess how successful these will be. For example, the Technical Services Department is working with the Procurement Section to provide a framework for the most commonly used building and road maintenance services. The Technical Services department believes that this change will give the Comhairle greater flexibility when procuring resources and also give a greater level of certainty on project costs.

# Governance

107. Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the chief executive and section 95 officer, the Comhairle is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance in monitoring these arrangements.

## Overall governance arrangements

108. We have reviewed the Comhairle's overall governance arrangements, including a review of the committee structures and composition, risk management, standards of conduct and the arrangements for the prevention and detection of fraud and irregularity. Overall we concluded that an appropriate governance framework is in place. The Comhairle is supported through a range of committees and sub-committees and has a number of statutory committees/ panels and joint consultative committees. The governance structure is aligned to the Comhairle's management structure with the remit of the committees reflecting the roles and responsibilities of the relevant areas of the organisation.

109. Following the local government elections, there has been minimal change to the overall committee structure at the Comhairle. Prior to the elections, the Policy and Resources Committee was supported by an ICT, Procurement and Asset Management Sub-Committee, the business of which is now considered directly by the Policy and Resources Committee. This should serve to raise the profile of the Comhairle's asset management arrangements. Waste services were previously considered by the Environment and Protective Services Committee but are now delegated to the Transportation and Infrastructure Committee. In addition, the Audit Panel, which used to consider the internal and external audit reports, has been dissolved and these reports are now considered by the Audit and Scrutiny Committee.

110. The Comhairle has remained an independent council, with 21 independent members (previously 25), seven SNP (previously four) and three Labour (previously two). Some independent members may align with political groups on certain matters. Early indications appear to suggest that this composition has increased the level of political scrutiny taking place however the Comhairle has adopted an issue by issue consensus based approach to decision making in place of having an administrative group.

111. Out of the 31 elected members there are thirteen Councillors who were not part of the previous Comhairle, eleven of whom are new councillors. This represents a change in membership of the Comhairle, committees and sub-committees. With such a change it is essential that newly elected members are supported through training and development. To meet these needs, a three day formal induction programme was available to all elected members, with a further time set aside later in the year for follow-up training sessions.

112. The Comhairle has a policy of holding annual personal development plan (PDP) meetings between the Chief Executive and all elected members. This gives the opportunity of identifying any cross cutting or individual training requirements. The PDP process did not take place during 2011/12 as this was the last year of the former Comhairle. We endorse the intention to reintroduce these meetings now that the new Comhairle has been elected.

## **Risk management**

113. During our interim audit we carried out a review of the Comhairle's risk management arrangements. The Strategic Risk Management Group, which oversees risk management activity, comprises representatives from all departments across the Comhairle. The group meet every two months and has created an action plan to develop the Comhairle's risk management arrangements over the short, medium and long term. Risk registers are entered onto the Comhairle's performance management system (Interplan) and quarterly reports are issued to the corporate management team and Policy and Resources Committee.
114. Although the Comhairle has made steps in delivering its risk management arrangements, it has yet to fully embed risk management into every day practices. The development of the Comhairle's risk management arrangements has also been incorporated into the best value improvement plan. Any development activity will be carried out by the Strategic Risk Management Group.

## **Prevention and detection of fraud and irregularity**

115. The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. We have not identified any significant areas of concern with the Comhairle's arrangements for the prevention and detection of fraud and other irregularities during the course of our audit.

## **National Fraud Initiative**

116. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises are undertaken every two years as part of the statutory audits of the participating bodies. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations. In 2012 Audit Scotland reported that the cumulative outcomes from NFI in Scotland were around £78 million.
117. Within the national NFI report the Comhairle was reported as being "*the only body in Scotland where the approach to the 2010/11 NFI exercise was unsatisfactory, with improvement required as matter of priority*". This was the same rating that was given to the Comhairle in the previous national report two years earlier. Although there appears to be a commitment towards NFI within

the Comhairle, this has not been reflected operationally. Investigation of matches raised through NFI has been conducted by Glasgow City Council benefits staff due to resource constraints at the Comhairle. The matches investigated do not appear to have been appropriately prioritised in line with NFI guidance. This has led to a number of poor quality matches and reports being investigated in full and a number of high quality matches being left unopened.

118. The Comhairle should revise its approach to NFI matches and ensure that it takes a risk based, prioritised approach to its investigations, even when these are conducted by an outside organisation. Participants in NFI are not expected to investigate all data matches. Priority should be given to following-up recommended matches and high quality matches. Lower quality matches and those that are not highlighted as recommended may best be investigated on a sample basis. The Comhairle should use its own knowledge of the business areas to assess the level of risk involved, as well as taking into account matches raised as high risk by the NFI tool.

*Action plan point 6*

119. We have not been able to identify any formal reporting to elected members during 2011/12 on the Comhairle's NFI work. Submission of data for inclusion in the 2012/13 NFI exercise is due in early October with matches scheduled for release to participants in January 2013. Reporting of NFI to elected members should be considered as part of the 2012/13 NFI exercise.

*Action plan point 7*

## **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

120. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We are pleased to report that overall our audit identified no significant issues of concern in relation to standards of conduct and the prevention and detection of bribery and corruption.

## **Looking forward**

### **Community Healthcare and Social Care Partnerships**

121. In May 2012 the Scottish Government released a formal consultation document on the integration of health and social care services for older people. It has been proposed that Community Healthcare Partnerships be replaced by Community Health and Social Care Partnerships (CHSCPs). The Government's proposals state that CHSCPs will be the joint and equal responsibility of the health boards and local authorities and will be accountable, via the chief executives of the health boards and local authorities, to Ministers, local authority leaders and health board chairs. CHSCPs will require integrated budgets which will be overseen by a jointly accountable officer, appointed by both parties. The jointly accountable officer will report to the two chief executives and through them to a Partnership Committee, which will be a joint committee of the local authority and the health board. Voting members of the Partnership Committee will be made up of an equal number of health board non-executive directors and local elected members.

122. The proposed legislation could have significant implications for the Comhairle. In September 2012 the Comhairle reported a draft response to the consultation. Whilst the Comhairle generally supports the intended outcomes of the proposed policy there is some concern that the proposed organisational arrangements may not be suitable in its case. We will maintain a watching brief on the Scottish Governments proposals on integration and the implications of these on the Comhairle.

# Appendix 1: Action Plan

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

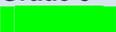
The rating structure is summarised as follows:

<b>Grade 1</b> 	<b>“Critical” – High likelihood, High impact (HH)</b> “The weakness is almost bound to happen or is already happening (likelihood) and could have a significant impact on the Comhairle’s services, reputation, control, financial position, statutory, regulatory or constitutional compliance if not contained”
<b>Grade 2</b> 	<b>“Contingent/Insurable Risk” - Low likelihood, High impact (LH)</b> “The weakness is unlikely to happen, but would have a significant impact on the Comhairle’s services, reputation, control, financial position, statutory, regulatory or constitutional compliance if it did occur”
<b>Grade 3</b> 	<b>“Housekeeping” – High likelihood, Low impact (HL)</b> “The weakness is almost bound to happen or is already happening but is unlikely to have a material impact on the Comhairle’s services, reputation, control, financial position, statutory, regulatory or constitutional compliance, and can be contained”
<b>Grade 4</b> 	<b>“Value for Money” – High likelihood, Value for money impact (HV)</b> “The weakness is almost bound to happen or is already happening but if contained would have a positive impact on economy, efficiency and effectiveness in the use of resources”

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

Action Plan Point	Para Ref	Recommendation and Rating	Management comments
1	61	<p>While the level of capital spend on the WISP project will significantly reduce in 2012/13, the forecast level of spend against the capital programme is significantly higher than has been achieved over each of the last four years of the capital programme. There is a risk, based on previous results, that the Comhairle's does not have the capacity to deliver all capital projects over the 2008-2013 period of the capital plan.</p> <p>The Comhairle should ensure adequate resources are made available to achieve the capital programme for 2012/13.</p> <p><b>Grade 2</b></p>	<p>The Comhairle will continue to monitor its capital programme closely and in setting the 2013-18 programme will take account of the expected outturn for 2012/13.</p> <p><b>Responsible Officer:</b> Director of Finance and Corporate Resources</p> <p><b>Completion Date:</b> March 2013</p>

Action Plan Point	Para Ref	Recommendation and Rating	Management comments
2	70	<p>The Comhairle must continue to develop its asset management arrangements. Asset management plans and asset inventories across sectors and/or departments should continue to be developed to ensure departments are more aware of their own requirements and alternative options available from other departments. Information on running costs and environmental impact should be made available to services to enable them to benchmark their arrangements and to identify more efficient practices.</p> <p><b>Grade 2</b>  </p>	<p>The development and full acceptance of an over-arching corporate asset management framework which comprises the several sectorial asset management plans (Roads, Properties, Vehicles and Plant, Marine, Waste Management and Disposal, Burial Grounds, ICT etc) must govern the corporate process. At the next level down, the establishment and maintenance of asset inventories and the development of sectorial Service Policies and Strategies are key to the consistent and sustainable development of budget strategies and the capital programme.</p> <p><b>Responsible Officer:</b> Head of Asset Management  <b>Completion Date:</b> Asset management plan to be presented to the Comhairle in December 2012 following which the sector asset management plans and asset inventories will be developed.</p>
3	76	<p>We would encourage the Comhairle to investigate and identify the causes for the changes in absence levels, especially as this is an area where the Comhairle intend to generate savings over the coming years.</p> <p><b>Grade 2</b>  </p>	<p>A project to upgrade the payroll/HR system and processes to enable analysis and monitoring systems to be implemented in underway.</p> <p><b>Responsible Officer:</b> Head of Human Resources  <b>Completion Date:</b> September 2013</p>
4	81	<p>Management should develop an action plan to identify and formalise all SLAs within its HR function. This action plan must set out clear timescales and lead officers for each action.</p> <p><b>Grade 3</b>  </p>	<p>Corporate Management Team will agree a timetable for the implementation of SLA's across the Comhairle.</p> <p><b>Responsible Officer:</b> Chief Executive  <b>Completion Date:</b> December 2012</p>

Action Plan Point	Para Ref	Recommendation and Rating	Management comments
5	100	<p>The Comhairle should enquire whether a report can be generated from the 'Spikes Cavell' system to meet its requirements. If this is not possible it should consider changing the definition or collection method of the indicator.</p> <p><i>("Percentage of annual spend with suppliers that is covered by a contract (where total spend in year is &gt; £25,000)")</i></p> <p><b>Grade 3</b></p> 	<p>This indicator is designed to measure year on year improvement and this will be clarified in future business plans.</p> <p><b>Responsible Officer:</b> Head of Exchequer Services  <b>Completion Date:</b> March 2013</p>
6	118	<p>The Comhairle was identified within the national National Fraud Initiative (NFI) report as being the only body in Scotland where the approach to the 2010/11 NFI exercise was unsatisfactory, with improvement required as matter of priority.</p> <p>The Comhairle should revise its approach to NFI matches and ensure that it takes a risk based, prioritised approach to its investigations. Priority should be given to following-up recommended matches and high quality matches.</p> <p><b>Grade 1</b></p> 	<p>An action plan is in place to complete the review of NFI matches.</p> <p><b>Responsible Officer:</b> Head of Exchequer Services  <b>Completion Date:</b> October 2012</p>

Action Plan Point	Para Ref	Recommendation and Rating	Management comments
7	119	<p>We have not been able to identify any formal reporting to elected members during 2011/12 on the Comhairle's NFI work. Reporting of NFI to elected members during the 2012/13 NFI cycle should be considered.</p> <p><b>Grade 2</b></p> 	<p>An update on NFI will be provided to elected members as part of the report on the Benefits and Counter Fraud Business Plan 2013/14</p> <p><b>Responsible Officer:</b> Head of Exchequer Services  <b>Completion Date:</b> February 2013</p>



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