



Comhairle nan Eilean Siar
Annual Report on the 2013/14
audit to the Comhairle and the
Controller of Audit

September 2014



Scott-Moncrieff
business advisers and accountants



Comhairle nan Eilean Siar

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Executive summary

Financial statements

Our independent auditor's report for the year ended 31 March 2014 gives an unqualified opinion on the financial statements; an unqualified opinion on other prescribed matters; and there are no matters which we are required to report by exception.

The financial statements and supporting schedules prepared by the Comhairle were of a good standard. Our thanks go out to all management and staff at the Comhairle for their co-operation and assistance during our audit.

Use of resources

The overall level of cash backed reserves held by the Comhairle decreased by £5.684 million compared to the previous year and totalled £19.285 million. This can be attributed mainly to the Comhairle charging £8.931 million capital expenditure against the general fund in the year (CFCR) (2012/13: nil). The Comhairle's general fund balance brought forward at 1 April 2013 of £22.764 million decreased to a cumulative net surplus of £18.800 million at 31 March 2014. Of this £7.735 million is uncommitted which is above the Comhairle's approved reserve level of £3 million. It is proposed that £4.5 million of the uncommitted balances be used, over the next three years, to contribute £1.5 million per year to the budget savings required.

Actual capital expenditure for 2013/14 was £22.216 million, £20 million of which related to projects carried forward from the 2008-13 capital programme. In total this represents approximately 91% of the annual approved capital programme. In March 2013 the Comhairle agreed a new capital programme for 2013-18. The programme forecasts £81.248 million capital expenditure over the next five years.

We considered the Comhairle's financial position, related budgets and projections to ensure that they are soundly based. Overall we found that the Comhairle has adequate arrangements in place for financial management and the use of resources. The Comhairle agreed its Budget Strategy in 2012, covering the three year period to 31 March 2015. In developing the 2013/14 budget the Comhairle undertook a comprehensive review, including extensive consultation, in order to identify the savings of £5.48 million needed across 2013/14 and 2014/15.

The Comhairle has identified the possible requirement to reduce its budget by £11.4 million over the next three years. For 2015/16 it is estimated that the Comhairle will need to identify savings of £3.6 million; of which the Comhairle has already identified £2.5 million. The remaining £1.1 million represents a saving of 1% for the Comhairle which management consider is an achievable year on year efficiency for Departments to realise without the need for budget choices. A more significant exercise will inevitably be required for the settlement beyond 2016.

Best value and performance

The Accounts Commission (the Commission) published the results of its best value follow-up audit in May 2014. Overall the findings are positive. The Commission acknowledges that the Comhairle has made progress against previous findings. The findings of the follow-up report were considered by the Policy and Resources Committee in June 2014. The report was also considered by the Comhairle's corporate improvement member and officer working group (MOWG) in September 2014. At this meeting the group agreed to incorporate into its

corporate improvement plan new high level actions which will draw upon the outcomes of the best value follow up audit.

In June 2014 Audit Scotland reported on how well councils had fulfilled their duties of public performance reporting (PPRg) during 2012/13. Audit Scotland concluded that Comhairle nan Eilean Siar partially met reporting requirements in four areas of corporate management (SPI 1) and in respect of service performance fully met reporting requirements in relation to the education of children. Requirements were partially met in the remaining ten areas relating to service performance. The Comhairle's corporate improvement member and officer working group recently met and discussed how these findings can be taken forward.

Governance

We have reviewed the Comhairle's corporate governance arrangements and found that generally adequate and effective systems are in place for internal control, the prevention and detection of fraud and irregularity, standards of conduct and the detection and prevention of bribery and corruption.

It has recently been agreed between the Comhairle and NHS Western Isles that the integration of health and social care will be delivered via the body corporate model. Work is underway to progress the creation of this body.

Conclusion

This report concludes our audit of Comhairle nan Eilean Siar for 2013/14. 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 management and staff at the Comhairle for their co-operation and assistance during our audit.

Scott-Moncrieff
September 2014

Introduction

1. This report summarises the findings from our 2013/14 audit of Comhairle nan Eilean Siar (the “Comhairle”). The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Audit and Scrutiny Committee at the outset of our audit.
2. The main elements of our work in 2013/14 have been:
 - Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
 - An audit of the financial statements, including a review of the annual governance statement;
 - A review of governance arrangements, internal controls and financial systems;
 - An appraisal of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
 - An assessment 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.
3. As part of our audit, we have also made use of the work of other inspection bodies including the Comhairle’s internal audit service and Audit Scotland.
4. The Comhairle is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report 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.
5. 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).

Financial statements

6. In this section we summarise the issues arising from our audit of Comhairle nan Eilean Siar's 2013/14 financial statements. The Comhairle's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Comhairle and the auditor in relation to the financial statements are outlined in Appendix 1.

Overall conclusion

An unqualified audit opinion on the financial statements

7. The annual accounts for the year ended 31 March 2014 were approved by the Comhairle on 26 September 2014. Our independent auditor's report gives:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on other prescribed matters; and
 - confirmation that we have nothing to report by exception.
8. Comhairle nan Eilean Siar is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulations 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 this deadline.
9. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to staff at the Comhairle for their assistance with our work.

Independence

10. We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) 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

11. 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.

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

Key areas of audit focus and significant findings

13. As noted in our 2013/14 External Audit Plan the following audit risk areas were identified as significant matters and therefore considered in detail during our audit fieldwork.

Financial Position

The Comhairle forecast that £6.155 million in savings would need to be identified over the next two years (commencing 2013/14). The Comhairle's agreed strategy was to look at the following four areas to identify these savings; human resources, asset management, joint working and budget choices. In practice asset management has formed the basis of a number of the budget choices.

Following the 2013/14 budget setting process the Comhairle has been able to reduce the required savings to £5.4 million, of which £4.5 million is to be met from budget choices. The Comhairle carried out a consultation exercise on budget choices for 2013/14 and 2014/15.

There is a risk that the financial position is not soundly based and/or the Comhairle's long term financial health is jeopardised.

Noted in 2013/14 External Audit Plan

14. During our audit we considered the Comhairle's financial position, related budgets and projections to ensure that they are soundly based. Overall we found that the Comhairle has adequate arrangements in place for financial management and the use of resources. Our findings are reported more fully in the 'use of resources' section of this report.

Western Isles Schools Project (WISP)

The project has delivered six new schools and is now substantially complete. During the construction phase, the WISP was managed by Sgoiltean Ùra LLP, a wholly owned subsidiary of the Comhairle. Lifecycle maintenance and facilities management for the WISP schools has been contracted to FES FM Ltd. The responsibility for the supervision and management of the WISP contracts is expected to transfer from Sgoiltean Ùra LLP to the Contracts Management Committee, a sub-committee of the Comhairle's Policy and Resources Committee during 2013/14.

The Comhairle's group in 2012/13 comprised Sgoiltean Ùra LLP, Northern Joint Police Board, Highlands and Islands Fire Board and Highlands and Western Isles Joint Valuation Board. The Comhairle intend to review the need to prepare group accounts this year, given the transfer of police and fire functions to the Scottish Police Authority and the materiality of transactions associated with Sgoiltean Ùra LLP and the Joint Valuation Board.

Noted in 2013/14 External Audit Plan

15. The transfer of the responsibility for the supervision and management of the WISP contracts has yet to happen. Although the process to novate the WISP contracts and transfer the assets and liabilities of Sgoiltean Ùra LLP to the Comhairle did commence at the beginning of 2013, due to delays in the legal process this has not yet been finalised. With building works on the WISP substantially complete in 2012/13, Sgoiltean Ùra LLP effectively ceased trading on 31 March 2013. Only residual transactions of a minimal value were reported in the 2013/14 financial statements.
16. Internal audit undertook a review on the WISP during 2013/14. The scope of this review included consideration of budgeting arrangements, value for money (VFM) and risk and monitoring arrangements

associated with the WISP. A number of recommendations were made by internal audit. We reviewed the content of internal audit's report as part of our risk assessment procedures and determined that no modification to our audit approach was required as a result of their findings. We will continue to monitor the implementation of internal audit's recommendations throughout 2014/15.

17. Group accounts have been prepared in 2013/14. The Comhairle's 2013/14 group comprises Sgoiltean Ùra LLP and the Highland and Western Isles Joint Valuation Board. It is anticipated that the need to prepare group accounts will remain in future years with the creation of an integrated health and social care body.

18. Police and fire functions transferred to the Scottish Police Authority and the Scottish Fire and

	Northern Joint Police Board £'000	Highlands and Islands Fire Board £'000
Reserves	(63,184)	(10,948)

Rescue Service on 1 April 2013. As a result local police and fire joint boards are no longer part of the Comhairle's group accounts. The movement on group reserves statement discloses the removal of balances associated with police and fire in the Comhairle's group accounts.

19. Overall we concluded that the Comhairle has consolidated its interests in group entities in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Statutory consultation on schools closure

The Education and Children's Services Committee has recommended to the Comhairle to proceed with statutory consultation in respect of the proposed closure of Eriskay Primary School (with effect from August 2014).

A paper was also presented to the Education and Children's Services Committee in September 2013 recommending that the Comhairle agree to proceed with statutory consultation on proposals to close Carinish, Lochmaddy and Paible Schools (effective from the final day of term in June 2015) and to establish a new North Uist Primary School.

There is a risk, subject to the timing and the outcome of the consultation, that the schools are not correctly valued and disclosed in the 2013/14 financial statements.

Noted in 2013/14 External Audit Plan

20. In March 2014 the Comhairle received confirmation from Scottish Ministers that they would not issue a call-in notice in respect of the proposal to close the Eriskay, Carinish, Lochmaddy and Paible Schools.
21. As at 31 March 2014 all four schools were fully operational. At the time of our audit, the future of Eriskay, Carinish and Lochmaddy Primary Schools had yet to be determined. The new North Uist Primary School is expected to be constructed on the site of the Paible Primary School, with the existing school to be demolished. A report presented to the Contracts Management Sub-committee in August 2014 indicated that the handover of the new school is now scheduled for December 2015.
22. In accordance with the Code, the schools were valued on a depreciated replacement cost and the net book value of these schools as at 31 March 2014 was £2.3 million. We considered the valuation basis and disclosure in relation to the closure of schools in the Comhairle's 2013/14 financial statements and found it to be appropriate.

Review of the 1985 Regulations

The Scottish Government has recently concluded on changes to the statutory arrangements for local authority accounts and audit. The Scottish Government is proposing to revoke The Local Authority Accounts (Scotland) Regulations 1985 and replace them with a single set of regulations 'The Local Authority Accounts (Scotland) Regulations 2013'. The consultation sought feedback on the following proposals:

- 1) Strengthened governance arrangements: the inclusion of an annual governance statement and an enhanced role for council members approving the annual statutory accounts
- 2) Enhanced reporting in the statutory accounts
- 3) To make it a statutory requirements for a local authority to undertake an adequate and effective internal audit
- 4) The requirement to disclose cash equivalent transfer values in the Remuneration Report

The Comhairle already comply with many of the proposed changes. There is a risk however that should these Regulations be introduced in 2013/14, that the Comhairle does not fully comply with these.

Noted in 2013/14 External Audit Plan

23. The Regulations were laid before Parliament in July 2014 and are due to come into force on 10 October 2014. We will therefore consider the impact on Comhairle nan Eilean Siar in 2014/15.

Revenue recognition

Under International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Comhairle could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2013/14 External Audit Plan

24. We have evaluated each material revenue stream, considered the Comhairle's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied consistently. Satisfactory assurance has been gained in respect of the completeness and occurrence of revenue transactions in the year.

Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Noted in 2013/14 External Audit Plan

25. We have reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override. Satisfactory assurance has been gained in respect of the mitigation of this risk.

Issues identified during our audit fieldwork

26. During the course of our audit work we noted the following:

Equal pay

27. The Comhairle has disclosed in its 2013/14 financial statements a contingent liability in respect of equal pay compensation claims. At 31 March 2014 the Comhairle had approximately 50 live equal pay claims outstanding. The liability for equal pay claims is reviewed annually based on the likelihood and proximity of the settlement of these claims. Following legal advice the Comhairle made no provision for these potential liabilities in its 2013/14 financial statements. The Comhairle believe there remains a significant degree of uncertainty over the potential costs and the possible legal process associated with these claims. We are satisfied that the Comhairle has accounted for equal pay compensation claims in its 2013/14 financial statements in accordance with International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*.

Contingent liability

28. On 22 May 2014, the Court of Justice of the European Union in their judgement on *Z.J.R.Lock v British Gas Trading Limited*, ruled that where an employee's pay element consists of two elements, a fixed basic salary as well a regular additional element based on work performed, their holiday pay calculation should take both elements into consideration.
29. The Comhairle is aware of potential liabilities in respect of additional holiday pay based on this recent European Court ruling. As yet, no provision has been made for these potential liabilities due to a significant degree of uncertainty over the potential costs associated with these claims that may commence in future years. We are satisfied that the Comhairle has considered this in accordance with International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*.

Decommissioning assets

30. In September 2014 the Local Authority Scotland Accounts Advisory Committee (LASAAC) released final guidance on asset decommissioning obligations. The guidance is framed with reference to landfill sites, but is equally applicable to other related obligations, such as quarries, wind turbines and waste treatment facilities. Local authorities that operate such sites have an obligation for restoration and aftercare costs.
31. As at 31 March 2014 the Comhairle had two landfill sites; Bennadrove and Rueval. The site at Bennadrove has been operational for over 50 years, while the Rueval site has been closed since 2008, with restoration works expected to be fully completed in 2014/15.
32. The Comhairle has recognised a provision of £2.134 million in respect of restoration costs for the landfill sites at Bennadrove and Rueval. In 2013/14 the provision was reduced by £0.994 million to reflect the costs incurred by the Comhairle in the year on restoration of the two sites. We have reviewed the accounting treatment adopted and concluded that it is consistent with the LASAAC guidance.
33. In 2014/15 the Comhairle expects to complete construction of the Creed Enterprise Park wind turbine. The project is financed through prudential borrowing with capital repayments expected to be funded from income generated through the 'Feed-in-Tariff' incentive scheme and the sale of electricity. We will liaise with the Comhairle over the coming year to ensure that it accounts for its obligation in relation to restoration costs for the wind turbines site in accordance with the Code and LASAAC guidance.

An Cotan

34. In 2012 the Comhairle entered into an Agreement with the Board of Management of Lews Castle College (LCC) to oversee and fund the construction of a pre-school nursery, An Cotan. The project was funded

by the Comhairle and ERDF (European Regional Development Funding) grant funding. Based on the Agreement all the responsibilities associated with the running of the nursery are expected to be within the remit of LCC.

35. In 2013/14, following construction of the asset, the Comhairle disposed of the asset; recognising a loss on disposal in its financial statements (£0.3 million). The accounting treatment adopted was based on the Agreement between the Comhairle and LCC. The legal form of this transaction is a 30-year lease with no consideration anticipated by the Comhairle. However in substance the arrangements do not meet the definition of a finance lease due to no consideration receivable by the Comhairle from LCC for the use of the nursery. During our audit we concluded that the Comhairle had accounted for An Cotan in accordance with the Code.
36. The Comhairle has imposed restrictions on the use of the asset by the LCC for the duration of the lease. The Comhairle should ensure appropriate arrangements are in place to monitor the use of the nursery on an annual basis for the duration of the Agreement. Should LCC breach the conditions imposed by the Comhairle on the use of An Cotan, the Comhairle may need to revisit the accounting treatment for this asset.

Action plan point 1

Property, plant and equipment

37. During our audit of the financial statements we noted that parts of the grounds of the Nicolson Institute Secondary School and Daliburgh Primary School are leased from Stornoway Trust and South Uist Estate respectively in return for annual payments. Both lease agreements are for 60 years. At present these parcels of land are being accounted for as if they are owned by the Comhairle. As at 31 March 2014, the revaluation of the land attributable to Nicolson Institute and Daliburgh Primary School was £0.3 million and £0.15 million respectively. These valuations are inclusive of those parcels of land leased by the Comhairle.
38. The Code requires local authorities to account for leases and lease-type arrangements in accordance with the provisions of International Accounting Standard 17 *Leases* (IAS 17). This standard prescribes the appropriate accounting treatment for any given type of lease agreement. Under IAS 17 land is usually classified as an operating lease as it is assumed to have an indefinite useful life. The only circumstance under which land is to be accounted for as a finance lease, i.e. as an asset of the lessee, is if title passes to them at the end of the lease term. Based on this requirement, we believe the leased parcels of land should not be included in the Comhairle's balance sheet as property, plant and equipment.
39. We were unable to determine an appropriate value for the owned and leased elements of land at the two sites. Based upon on the current valuations however, any proposed adjustment would not materially misstate the financial statements. Nevertheless the Comhairle should ensure compliance with IAS 17 and resolve this issue going forward.

Action plan point 2

Exit packages

40. During the year, the Comhairle undertook a voluntary severance scheme. A total of 32 applicants accepted the offer, amounting to a total cost of £1.013 million. All applications were assessed through the Comhairle's Voluntary Early Retirement/Voluntary Redundancy Panel, to ensure that future cost savings could be achieved from the early departure.

Trading operations

41. Under the Local Government in Scotland Act 2003, the Comhairle has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The Comhairle has not classified any of its trading operations as significant since 2010/11. The last review carried out by the Comhairle was in December 2011.
42. In June 2013, the LASAAC issued new guidance on STOs. This guidance provided details of the conclusions of the Trading Operations Review Group which was established to undertake a post-legislative review of the 2003 Act particularly in respect of the requirements in relation to STOs. The guidance recommends that the identification of an STO should focus only on those services or activities which are external to the 'single entity' local authority and which are not statutory in nature. The Comhairle should consider this guidance and assess if it is necessary to reclassify any of its trading operations as significant.

Action plan point 3

Annual Governance Statement

43. The Chief Executive and the Council Leader have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of Comhairle nan Eilean Siar and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be taken by the Comhairle to continue to progress improvements in the Comhairle's governance arrangements.
44. We have reviewed the Comhairle's Annual Governance Statement and have found that it complies with the relevant guidance: *Delivering Good Governance in Local Government*. We have also found that the processes used to prepare the statements are reasonable and appropriate.

Remuneration report

45. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

Follow up of prior year audit recommendations

46. As part of our audit we have followed up on the recommendations raised in our 2012/13 Annual Report. The following table indicates the number of issues that have not been implemented. Those actions which remain outstanding relate to the following areas:
 - Review of the Comhairle's succession planning arrangements – this action is due to be completed by December 2014;
 - Formal reporting to elected members on the national fraud initiative – this action is partially completed (refer to paragraph 110).

Total number of recommendations raised in 2012/13 Annual Report	Complete	Outstanding
10	8	2

Audit adjustments and unadjusted items

We report the following misstatements identified through our audit to the Director of Finance and Corporate Resources:

- all material corrected misstatements
- uncorrected misstatements with a value in excess of 1% of the overall materiality figure
- other misstatements below the 1% threshold that we believe warranted reporting on qualitative grounds

47. We identified no major errors or weaknesses during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation and have been agreed with the Director of Finance and Corporate Resources.
48. We also identified a number of potential adjustments which are not considered material to the financial statements, either individually or in aggregate. These have been reported to the Director of Finance and Corporate Resources and are included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the financial statements.

Materiality

49. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.
50. Our assessment of materiality for the group financial statements was £1.050 million, which has remained appropriate throughout the audit. Our assessment of materiality was set with reference to a range of benchmarks (including gross service expenditure, surplus/deficit on provision of services and usable reserves). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the Comhairle.
51. Our External Audit Plan outlines the significant risks that were identified at the planning stage of the audit. We have designed procedures to mitigate the risk of material misstatement. Audit testing was completed by the audit fieldwork team and reviewed by the audit manager and audit partner. Our audit approach is based on performing a review of the significant accounting systems in place, substantive tests and detailed analytical review. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We performed audit procedures on all transactions and balances that exceeded our performance materiality. This meant that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Calculation of performance materiality (£)

Area risk assessment	Weighting	Performance materiality (£)
High	50%	525,000
Medium	65%	682,500
Low	85%	892,500

Qualitative aspects of accounting practices and financial reporting

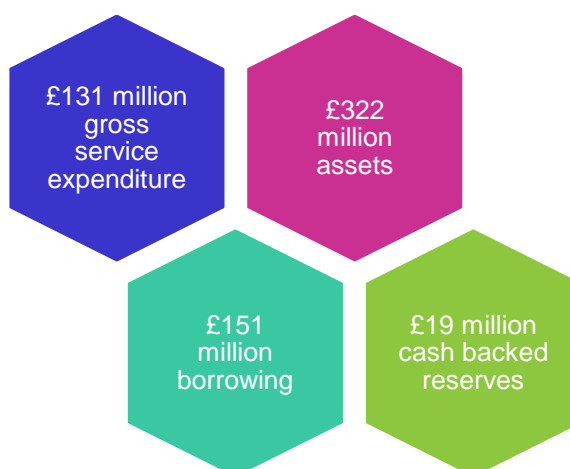
52. During the course of our audit, we considered the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the Comhairle.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. Significant estimates have been made in relation to property, plant and equipment, pension liabilities and arrears. We consider the estimates made, and the related disclosures, to be appropriate to the Comhairle.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the financial statements (beyond the existing disclosures made).
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the Explanatory Foreword or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in the Explanatory Foreword.
Any significant financial statement disclosures to bring to your attention.	There is no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

Use of Resources

The Comhairle's financial performance in 2013/14

53. In 2013/14, as recorded in the comprehensive income and expenditure statement, the Comhairle spent £131.134 million on the provision of services, resulting in an accounting surplus of £3.498 million. This however includes certain elements of income and expenditure that are accounted for in such a way to comply with the Code of Practice on Local Authority Accounting (the Code), and which are then



adjusted to show their impact on statutory council reserves. Following these adjustments, the net impact is a decrease in the general fund balance of £3.964 million. The budget set for 2013/14 was based on Band D council tax of £1,024 (unchanged from 2012/13).

54. The overall level of cash backed reserves held by the Comhairle decreased by £5.684 million compared to the previous year and totalled £19.285 million. This decrease can be attributed mainly to the Comhairle charging £8.931 million capital expenditure against the general fund in the year (CFCR) (2012/13: nil).

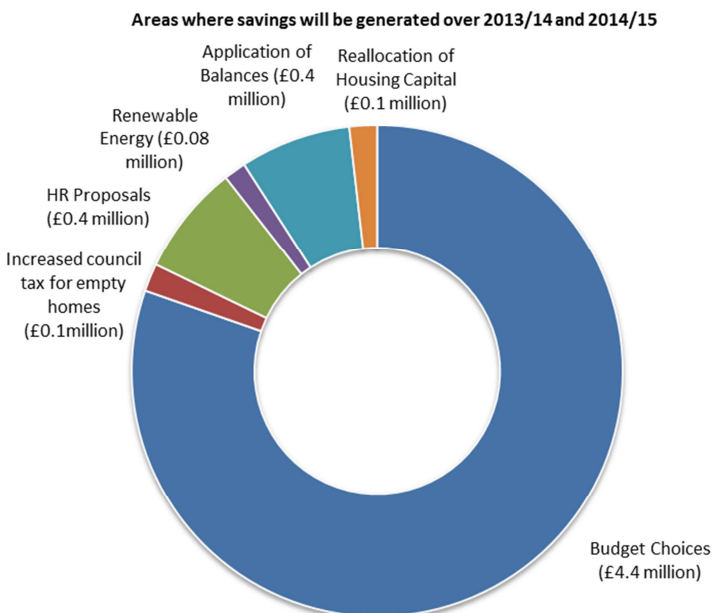
	2012/13 £ million	2013/14 £ million	Movement £ million
General Fund Balances	22.764	18.800	(3.964)
Capital Fund	1.181	0.156	(1.025)
Capital Grants Unapplied Account	0.124	0.285	0.161
Capital Receipts	0.900	0.044	(0.865)
Total	24.969	19.285	(5.684)

(Source: Comhairle nan Eilean Siar 2013/14 Annual Accounts)

55. The Comhairle's general fund balance brought forward at 1 April 2013 of £22.764 million decreased to a cumulative net surplus of £18.800 million at 31 March 2014. £11.065 million has been earmarked for specific commitments (59%) with the remaining balance of £7.735 million remaining uncommitted (in 2012/13 £18.359 million (81%) of the general fund balance had been earmarked for specific purposes). The balance of uncommitted general fund balance is above the Comhairle's approved reserve level of £3 million. It is proposed that £4.5 million of the uncommitted balances be used, over the next three years, to contribute £1.5 million per year to the budget savings required.

Budget monitoring and control

- 56.** The general fund deficit in 2013/14 of £3.964 million compares adversely to a budgeted deficit of £0.216 million. The main reason for the deficit was the use of £8.931 million of general fund balances to finance capital projects including two refuse collection vehicles, capital improvements to Sandwick School and local housing. This was offset by savings and additional income generated in the year in areas such as the Western Isles Schools Project (WISP).



proposals (£0.250 million) and renewable energy (£0.08 million).

- 57.** The Comhairle agreed its Budget Strategy in 2012, covering the three year period to 31 March 2015. In developing the 2013/14 budget the Comhairle undertook a comprehensive review, including extensive consultation, in order to identify the savings of £5.48 million needed across 2013/14 and 2014/15. The 2013/14 budget approved by the Comhairle addressed this savings requirement.

- 58.** In February 2014, the Comhairle approved its 2014/15 budget with a budgeted surplus of £41,000. In 2014/15 savings are expected to be achieved from budget choices (£2.608 million), HR

Future financial projections

- 59.** In April 2014, the Comhairle agreed its overall Budget Strategy for the period 2015-18. For 2015/16 it is estimated that the Comhairle will need to identify savings of £3.6 million. £1.5 million of this will be met from uncommitted general fund balances. Savings of £1 million are also achievable due to reducing costs on servicing debt. The Comhairle therefore need to identify £1.1 million savings in 2015/16. This represents a saving of 1% for the Comhairle which management consider is an achievable year on year efficiency for Departments to realise without the need for budget choices. A more significant exercise will inevitably be required for the settlement beyond 2016.
- 60.** Beyond 2015/16 the uncertainty associated with the Independence Referendum and the 2015 Westminster elections mean that projecting grant settlements for the following three years is more challenging. The Comhairle has attempted to forecast the amount of savings that will be required in future years. The Comhairle has identified the possible requirement to reduce its budget by £11.4 million over the next three years.
- 61.** The Comhairle has recognised that the increasing cost associated with demographic factors is likely to be an increasing budget pressure in the coming years. The Comhairle has drawn on census figures, population projections, delivery models and cost estimates to estimate the potential increasing cost due to demographics.
- 62.** Given the extent to which savings will be required over the coming years, the Comhairle is currently reviewing its approach to workforce planning and its associated policies and procedures.

63. In April 2014, the Comhairle issued a questionnaire seeking views on a wide range of council services from all community councils, residents' associations, elected members, community planning partners, youth councils and a sample of one in ten households. The responses will be analysed and reported to the Comhairle in September 2014, with a view to helping inform the budget setting process for 2015/16. The Comhairle plans to issue similar questionnaires on an annual basis.

Capital performance

£22.216 million: Capital investment

- £7.147 million: Sustainable development
- £2.344 million: Health and social care
- £4.017 million: Roads and transport
- £2.616 million: Schools
- £1.795 million: Waste management
- £2.938 million: Local housing services
- £1.359 million: Other Services

64. At its meeting on 28 March 2013 the Comhairle agreed a Capital Programme estimated at £81.248 million for the period 2013-18 (including carry forward from 2012/13 of £38.748 million). The final outturn for 2013/14 was £22.216 million, £20 million of which related to projects carried forward from the 2008-13 capital programme. In total this represents approximately 91% of the annual approved capital programme.

Welfare reform

65. In 2012/13 a Welfare and Poverty Officers group was established to raise awareness of the reforms to agencies and those affected. The group comprises representatives from the Comhairle, Department for Work and Pensions, Hebridean Housing Partnership, NHS Western Isles and the third sector. The group, along with the Poverty Action Group (a sub group of the Outer Hebrides Community Planning Partnership) have been working on a variety of initiatives to address concerns regarding the changes to welfare. In June 2014, a paper was presented to the Comhairle with an update on work undertaken to mitigate the impact of welfare reform in the Outer Hebrides.

Update on welfare reform and poverty: June 2014

Report by the Chief Executive to the Policy and Resources Committee

- In April 2014, launch of a survival guide for those in crisis.
- Highlands and Islands Enterprise commissioned a report on minimum income standards in the Highlands and Islands area. This highlighted the large discrepancy in the amount of income required to live in remote rural areas of Scotland.
- A fuel poverty survey has been carried out (although results yet to be published). Provisional results suggest that 70% of households in the Outer Hebrides live in fuel poverty.
- A Poverty Awareness Day was held in April 2014
- Implementation of increasing sanctions has also begun to have an impact with a significant number of claimants affecting the Outer Hebrides.
- The Comhairle has made discretionary housing payments available to all those affected by the "bedroom tax".

Best value and performance

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

Best Value

67. The Local Government in Scotland Act 2003 created a statutory duty of Best Value for all councils, and the Accounts Commission for Scotland is responsible for reporting to the public on the extent to which individual local authorities meet this duty. Audit Scotland staff carry out the audit work on Best Value and the Controller of Audit provides audit reports to the Accounts Commission.
68. The first Best Value and Community Planning audit report on the Comhairle was published in August 2006. The audit found that the Comhairle could not demonstrate a commitment to continuous improvement and that the pace of change within the Comhairle needed to be increased. Following a second audit report, in November 2011, the Accounts Commission expressed concerns over the slow pace of improvement in certain key areas and requested a subsequent progress report from the Controller of Audit around 12 months later. This follow-up audit report was published in December 2012.
69. In its findings in December 2012, the Accounts Commission recognised that progress had been made by the Comhairle since 2011. In particular it noted developments in its performance management system, although the potential benefits of this had still to be fully realised. The Accounts Commission did however note with concern that further progress was needed in some areas. In particular the Comhairle was still not able to gauge properly the satisfaction of customers, and it needed to make more progress in managing its workforce effectively. The Accounts Commission encouraged the Comhairle to increase the momentum of improvement, and to underline this, it asked the Controller of Audit to report on progress “at an appropriate time within the next 18 months”.
70. Audit Scotland completed its follow-up audit and reported its findings in a report by the Accounts Commission in May 2014.

The Audit of Best Value and Community Planning Comhairle nan Eilean Siar: A follow-up report (Prepared by Audit Scotland, May 2014).

- The Commission welcomed the progress made by the Comhairle against its previous findings.
- The Commission is encouraged by the increased scrutiny and challenge of performance by councillors and by the progress made in how the Comhairle manages its workforce, notably in the performance, learning and development of individual employees.
- The Commission noted that the Comhairle recognises the need to evaluate and act upon customer and citizen views more effectively.
- The Commission welcomes the significant progress made in developing a culture of continuous improvement, the key challenge for the Comhairle will be to ensure this culture becomes a permanent feature and is not compromised by events such as changes in political or officer leadership.
- There is a positive momentum in the Comhairle, and it needs to maintain this momentum to ensure it delivers continuous improvement.

71. The findings of the follow-up report were considered by the Policy and Resources committee in June 2014. The report was also considered by the Comhairle's corporate improvement member and officer working group (MOWG) in September 2014. At this meeting the group agreed to incorporate into its corporate improvement plan new high level actions which draw upon the outcomes of the best value follow-up audit.

Statutory performance indicators

72. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2012 Direction, which applies to 2013/14, reinforced the Accounts Commission's focus on public performance reporting (PPR) and local authorities' requirement to take responsibility for the performance information they report. As in previous years, published performance information must, when considered cumulatively, fulfil the requirements of SPI 1 (Corporate Management) and SPI 2 (Service Performance). In contrast with prior years, the 2012 Direction does not contain a list of specified indicators that local authorities' are expected to report on.
73. In addition to SPI 1 and SPI 2, SPI 3 has been introduced in 2013/14 which requires local authorities' to report performance in accordance with the requirements of the Society of Local Authority Chief Executives (SOLACE) benchmarking framework, also referred to as the Local Government Benchmarking Framework (LGBF).
74. The LGBF was developed by the Improvement Service at the request of SOLACE. The LGBF comprises of a suite of performance indicators which will be comparable across all Scottish local authorities. These have been principally taken from existing sources. For example, a number of the LGBF indicators were previously collected as specified statutory performance indicators. Each of the 32 Scottish local authorities have been allocated to family groups, to allow meaningful local benchmarking¹.

Comhairle's 'family' group

- North Lanarkshire
- Dundee City
- East Ayrshire
- Glasgow City
- West Dunbartonshire
- Inverclyde
- North Ayrshire

Comhairle's 'other services' group

- Aberdeenshire
- Argyll and Bute
- Shetland Islands
- Highland
- Orkney Islands
- Scottish Borders
- Dumfries and Galloway

75. The framework for 2012/13 was finalised in December 2013 with the results published on the Improvement Service website in March 2014 (www.improvementservice.org.uk/benchmarking). The Comhairle provides a link to the Improvement Service website through its own performance web pages. Unfortunately, the reporting timeframe for LGBF data has had an impact on all local authorities' ability to use this comparative information within its PPR material. However, the Improvement Service have committed to making the LGBF results for 2013/14 available by November 2014. This will help local authorities to benchmark effectively against their comparator groups going forward.
76. The Comhairle has identified a range of indicators that it considers meet the requirements of SPI 1 and SPI 2 and supports the PPR requirements in the statutory direction. These are supplemented by LGBF

¹ There are two sets of family groups for each local authority – these are dependent on whether the indicator is influenced by social context/deprivation (e.g. educational attainment) or population density (e.g. roads network). These are respectively classified as family groups for "people indicators" and "other services" by the Improvement Service.

indicators. As part of our annual audit we reviewed the arrangements for collecting, recording and publishing performance data. Along with the Comhairle's internal audit team we reviewed a sample of the indicators the Comhairle has chosen to report to meet its PPR obligations. Our review sought to ensure that the information produced and published is reliable.

77. Internal audit's review considered the Comhairle's arrangements for collating and recording both statutory and local performance indicators and those indicators required under the LGBF. No significant issues were raised and a number of aspects of good practice were identified. Internal audit did however note that two directorates did not submit their performance information in line with internal deadlines. This had resulted in this data not receiving additional quality assurance checks by the appointed performance monitoring officer. We recommend that directorates ensure they meet such deadlines to ensure the accuracy of data being reported.

Action plan point 4

78. Overall, from the sample testing we performed we concluded that the Comhairle has adequate arrangements in place for the collection and publication of accurate and complete information in relation to public performance reporting (SPI 1, 2 and 3). In total we carried out a high level review of eighteen indicators, all of which were found to be reliable. In two cases the indicator was only found to be reliable after the errors we identified had been corrected. In a further five cases, whilst the indicator was found to be reliable, we recommend that management review indicator definitions and data collection arrangements. Five recommendations have been made as a result of our review.

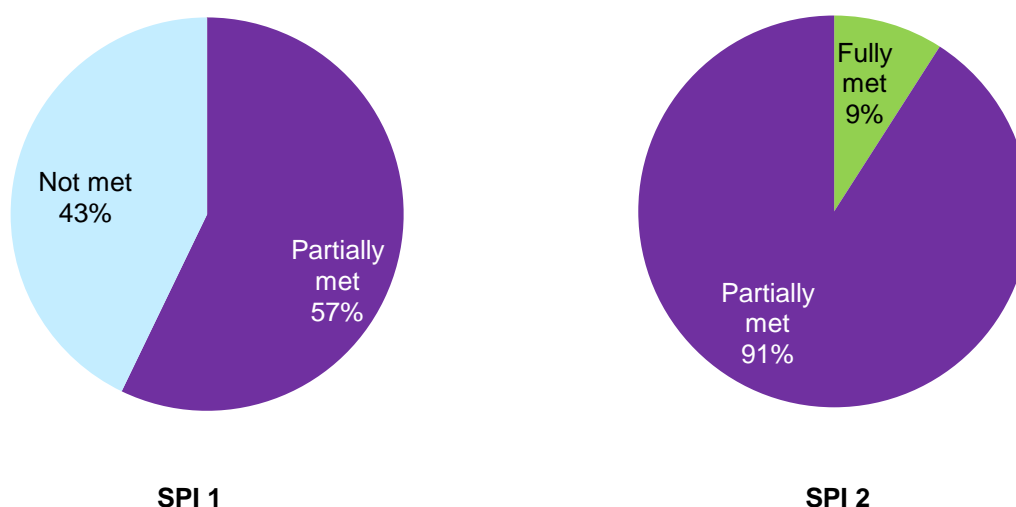
Action plan points 5-9

79. The Comhairle has agreed the performance indicators that will be reported externally for 2014/15. All of the performance indicators (PIs) in the directorate 2014/15 business plans were approved in February 2014; there are 227 of these. Following approval of the business plans, departments considered which PIs should be reported on externally and which are for internal reporting only. There are 115 PIs selected for external reporting (this includes the LGBF indicators).

Public performance reporting (PPR)

80. In June 2014 Audit Scotland reported their evaluation of how well local authorities fulfilled their duties on public performance reporting during 2012/13. This evaluation sought to:
- Provide an update to the Accounts Commission on the development of the Local Government Benchmarking Framework (LGBF);
 - Provide an update to the Accounts Commission on how the approach to evaluating and supporting PPR has developed;
 - Provide the Accounts Commission with an assessment of the quality of PPR against the corporate management themes under SPI 1 and the service performance themes under SPI 2, as set out in the Direction; and
 - Identify where there has been improvement in how local authorities are reporting their performance and where improvement is still required.

Evaluation of the Comhairle's compliance with the themes of SPI 1 and SPI 2



(Source: Audit Scotland assessment of the Comhairle's 2012/13 PPR arrangements)

81. Audit Scotland concluded that Comhairle nan Eilean Siar partially met reporting requirements in four areas of corporate management (SPI 1). These were community responsiveness, revenues and service costs, employees and sustainable development. It did not however meet the reporting requirements in the remaining three areas of corporate management. In comparison, in 2011/12 Audit Scotland concluded that the Comhairle partially met the reporting requirements in relation to three areas of corporate management. The Comhairle did not however meet the reporting requirements in relation to 'employees', 'assets', 'procurement' or 'equalities and diversity'.
82. Following its assessment of the service performance arrangements, Audit Scotland concluded that the Comhairle fully met reporting requirements in relation to the education of children. Requirements were partially met in the remaining ten areas relating to service performance. In comparison, in 2011/12, Audit Scotland concluded that the Comhairle fully met the reporting requirements in only one area of service performance; Community Care. It partially met reporting requirements in relation to Planning and the Education of Children. It did not however meet the reporting requirements for any of the other eight services specified.
83. Audit Scotland also reported against three general areas of PPR arrangements:

Outcome of assessment against general reporting requirements

General Requirements	Outcome of assessment
Area improvement targets included?	Partial
Are comparatives over time included?	Yes
Is performance compared to other councils or service providers?	No

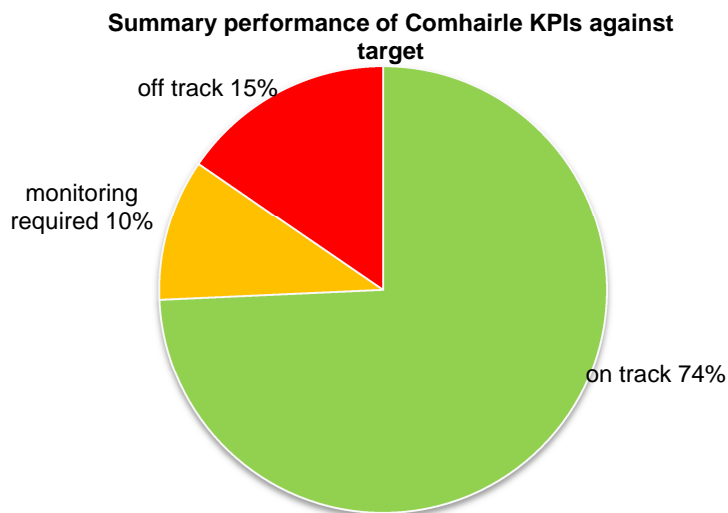
(Source: Audit Scotland assessment of the Comhairle's 2012/13 PPR arrangements)

84. Although there has been improvement in the Comhairle's public performance arrangements (in comparison with the prior year) we have encouraged the Comhairle to review its arrangements to demonstrate continuous improvement in the quality of its public performance reporting arrangements.

85. We reported these results to the Comhairle within our interim management report and recommended that management continue to review its arrangements to demonstrate continuous improvement in the quality of its public performance reporting arrangements. We are pleased to report that the Comhairle is moving forward with plans to improve the accessibility of performance information on its website. Initial work has begun to review and streamline the suite of indicators being reported with the aim of more clearly demonstrating how the Comhairle is complying with the requirements of the statutory direction. Work however is still on-going and we would encourage the Comhairle to continue these efforts.
86. For a number of years the Comhairle has produced a public performance calendar as a way of engaging the community on the Comhairle's performance. The Accounts Commission in its 2014 best value follow-up report acknowledged that the Comhairle has improved its public performance reporting arrangements with the introduction of its public performance calendar. It did however encourage the Comhairle to further develop its public performance reporting by giving more attention to those areas where performance is less successful and what is being done to address it. The Comhairle's corporate improvement member and officer working group (MOWG) recently considered a proposal to continue with the calendar to report performance for 2013/14 but that the calendar include a section under each Corporate Strategy heading highlighting key achievements and areas where further improvement is required.

Summary of performance

87. Service committees receive quarterly reports on performance against the Service Business Plans. These include reporting of all key performance indicators (KPI) against target. The performance reports are generated from the information entered by each service onto the Interplan system (the Comhairle's performance management system). Comments are made against each indicator where the service has deemed it relevant.



88. In 2013/14, 74% of indicators set are on track, 10% of indicators are within set thresholds and are assessed as requiring monitoring while 15% of indicators have fallen below target.

Audit Scotland national performance audit reports

Recent Audit Scotland national performance audit reports

Major capital investment in councils March 2013	Maintaining Scotland's roads May 2013	Managing early departures May 2013	Housing in Scotland July 2013	Charging for services: are you getting it right? October 2013
Scotland's public sector workforce November 2013	Reshaping care for older people February 2014	Options appraisal: are you getting it right? March 2014	An overview of local government in Scotland March 2014	Procurement in Councils April 2014

89. Audit Scotland produces a number of national performance audit reports each year. All local authorities are encouraged to review the national reports and, where appropriate, identify improvement actions. All relevant national performance audit reports are presented to the relevant Comhairle committee.

National performance audit studies – impact and follow through

90. In 2013/14, Audit Scotland specifically requested that local auditors carry out targeted follow up work on *Arms-Length External Organisations: Are you getting it right?* (published June 2011) and *Major Capital Investment in Councils* (published March 2013). Key findings from our reviews were as follows:
- *Arms-Length External Organisations: Are you getting it right?* – the aim of this review was to provide the Accounts Commission with a position statement on the Comhairle's use of ALEOs. In 2013, the Director of Finance and Corporate Resources reviewed the funding the Comhairle provides to external organisations and concluded that all existing funding arrangements are either on a contractual basis or relate to small amounts to community groups who provide services that are not normally provided by the council. As such he concluded that there are no arrangements which would meet the definition of an ALEO and consequently the Comhairle does not maintain a register of funding to ALEOs nor has developed governance arrangements for overseeing ALEOs.
 - Major Capital Investment in Councils – the aim of this review was to answer the question: *to what extent have councils improved performance in managing their capital investment programmes?* In particular we were required to consider whether the recommendations from the national report had been considered by the Comhairle, whether the Comhairle has sustainable capital investment plans which reflect strategic priorities and whether elected members are provided with sufficient information to support effective scrutiny and challenge. Overall we concluded, given the scale of the Comhairle's capital programme (~£82 million over the next five years) that the Comhairle's approach taken in response to the report is proportionate. The report was considered by the Comhairle's Policy and Resources Committee and Audit and Scrutiny Committee in June 2013 (13 and 12 June 2013 respectively). The Comhairle approved its Corporate Asset Management Plan in June 2013. This covers the period 2013-18 and includes a section on Capital Investment Strategy and Asset Management. The Comhairle's Policy and Resources Committee receives quarterly capital monitoring reports which provide an update on progress against the capital programme. Detailed working papers are maintained by finance which show spend against each project and the forecast spend for the year. The working papers also record financing split over each directorate. At the end of each year, elected members are provided with a breakdown of how the annual capital budget has been financed.

Procurement

91. In April 2014, Audit Scotland published its report “Procurement in Councils”. Procurement is the process that councils follow to buy the goods and services they need to provide public services. Effective procurement is important in helping councils achieve their local outcomes and priorities, secure value for money and deliver other benefits. Effective procurement involves the following: having the right people in the right place, defining the supply need, sourcing strategies and collaborative procurement, contract and supplier management, purchasing processes and systems. (Audit Scotland, ‘Procurement in council’s’; April 2014).
92. One of the methods used to measure performance is the Procurement Capability Assessment (PCA). The Scottish Government introduced the PCA to help public bodies improve their procurement structures, capability, processes and performance, and to achieve the best procurement standards. The aim of the PCA is to assess procurement capability in important areas against common criteria and standards to help councils continuously improve.
93. The Comhairle is cited in Audit Scotland’s report as an example of good practice in investing in staff to improve procurement practice. The report notes that the Comhairle performs better in the PCA than other councils of their size.

Comhairle nan Eilean Siar

The Comhairle attributes the improvement in its PCA score from 15 per cent in 2009 to 57 per cent in 2013 to the following factors:

- Meetings between the senior stakeholders and Scotland Excel staff secured corporate commitment to improving procurement.
- A head of service to spend 50 per cent of time working in procurement, plus the refocusing of resources within the purchasing team to enable the establishment of a new procurement officer.
- The council established a procurement steering group consisting of three directors and three heads of service. This group approves all procurement strategies, specifications and contracts, and has raised the profile of procurement across the council.
- A procurement checklist for all contracts ensures that processes are followed and sets contract outcomes are set. This fosters a corporate approach to procurement and helps mitigate procurement risks.
- The council has a focus on bringing off-contract spend under contract and on reducing maverick spend.
- It has established a procurement training programme for managers, which 120 staff have completed to date.
- Investment in and the enforcement of the use of electronic procurement systems across the council.

Source: Extract from Audit Scotland’s ‘Procurement in council’s report’; April 2014

Assurance and improvement plan

94. The Local Area Network of scrutiny partners for the Comhairle conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2014 to 2017. This

was published on Audit Scotland's website and was submitted to the Comhairle in June 2014 for information and consideration by elected members. The report indicated that no additional scrutiny was required in respect of either Corporate Assessment or Service Improvement.

Governance

95. 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.

Governance arrangements

96. We have reviewed the Comhairle's overall governance arrangements. This has included consideration of the Comhairle's arrangements as they relate to standards of conduct including the prevention and detection of bribery and corruption, the prevention and detection of fraud and irregularity and risk management. Based on our review, we consider the overall governance arrangements to be adequate and appropriate.

Health and social care integration

97. The Public Bodies (Joint Working) (Scotland) Bill was introduced to Parliament on 28 May 2013. The Bill's aim was to drive integration between health boards and local authorities as a means of improving outcomes for service users. The Comhairle, in November 2013, agreed that its preferred model for integration was the body corporate model. However, in December 2013, the NHS Board indicated a provisional preference for a Lead Agency model, with itself as the lead agent. The Island Council and Health Board subsequently met with the Cabinet Secretary for Health and Wellbeing and were instructed to reach an agreement along the lines of the body corporate model. Agreement was reached in August 2014. A body corporate model will be adopted.
98. Work is now progressing to develop an integration scheme, which will be presented to the Comhairle and Health Board for approval in December 2014. A number of work streams are also to be established to ensure the successful implementation of the Western Isles model.
99. The Scottish Government has issued two sets of draft Regulations for consultation and provided more information about the intended timescales for implementation. The integration scheme must be approved by the Scottish Government by 1 April 2015 and full implementation is required by 1 April 2016. We will continue to monitor the Western Isles approach to developing this model over the coming year.

Systems of internal financial control

100. In line with International Standards on Auditing and to facilitate an efficient audit we have considered the controls in place over the Comhairle's key financial systems. As reported in our interim report we did not identify any significant deficiencies in the operation or design of the key financial systems. We did however note that seven recommendations from our 2011/12 and 2012/13 interim reports remain outstanding. These are to be implemented over the coming year.

Review of internal audit

101. Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the Comhairle's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. At the Comhairle, the internal audit service is provided by an in-house team.
102. It is essential for effective co-ordination between internal audit and external audit 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 internal audit.
103. In accordance with International Standards on Auditing we have considered the function provided by the in-house team and have concluded that the service is fit for purpose. As a result we have placed reliance on the work of internal audit where appropriate.

Risk management

104. At the Comhairle, a 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 Services. The group comprises representatives from all departments across the Comhairle. The group meet every two months and has established 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 (CMT) and the Audit and Scrutiny Committee.
105. Since our review in 2012/13, the Comhairle has continued to develop its risk management arrangements. In particular we noted the following:
 - A framework for incorporating risk assessments in all committee reports was approved by the Policy and Resources Committee. This framework aims to promote risk management across committee reporting and decision making.
 - A draft partnership risk register has been established between the Comhairle and NHS Western Isles. However, a revised register is still to be implemented for the integrated authority change programme in place. Discussions have been held with the Director of Social & Community Services, and specific guidance has been issued by the Comhairle's Risk Function to ensure the arrangements meet best practice. The Risk Function remains actively involved in the implementation of this programme.
 - A quarterly 'Risk Activity Report' has been introduced by the Risk Function. This is to encourage all services across the Comhairle to evidence, on a quarterly basis, that a review of risks and the monitoring of risk mitigating controls is being carried out. The 'Risk Activity Reports' also promote services to identify early warning indicators. This additional control is expected to improve risk management arrangements across the Comhairle.
 - The membership of the Strategic Risk Management Group was reviewed and updated to ensure there was sufficient presence of all staff involved in the risk management process across all services in the Comhairle.

- The Risk Function generates a summary of insurance claims information, on an annual basis, to all departments in the Comhairle. This is to ensure the Comhairle identify key risks in relation to the service insurance claims.

106. We did identify two observations from our review of the Comhairle's risk management arrangements:

- To ensure that services across the Comhairle are implementing consistent and effective risk management arrangements, the Comhairle should ensure that guidance is provided to all service managers. We could not identify any guidance which specifically states the requirements of the service managers in managing risk. Furthermore, we would also encourage the Risk Function to provide face to face or desktop based training, to ensure all staff have a sufficient understanding of the risk management process.
- We found that there is currently no guidance relating to managing risk on significant projects in the Comhairle. To ensure all key risks relating to a capital or change project are identified, monitored and managed effectively, the Comhairle should ensure there is sufficient guidance and training for all members of staff who are involved.

107. These areas were highlighted in our interim report and management have committed to taking forward these areas in 2014/15.

Fraud and irregularity

108. In accordance with the Code of Audit Practice, we have reviewed the Comhairle's arrangements for the prevention and detection of fraud and irregularities. We have not identified any areas of concern from this review.

National Fraud Initiative

109. 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 audit of the participating bodies. We found the Comhairle's approach to the most recent NFI exercise (2012/13) to be satisfactory, with some scope for improvement. Our findings were reported in our 2012/13 Annual Report.

110. The Comhairle has started to plan for the next NFI exercise (2014/15), however no formal reporting has yet been made to elected members. In June 2014 Audit Scotland published *The National Fraud Initiative in Scotland 2012/13* which provides guidance and recommendations for the participants to consider in preparation for the 2014/15 NFI exercise. This report includes a self-appraisal checklist which the participants are encouraged to use to appraise their involvement in NFI prior and during the exercise. In the past the Comhairle has been subject to criticism for the lack of adequate arrangements in relation to the NFI. In order to demonstrate its increase in commitment and to ensure appropriate planning arrangements are in place, the Comhairle should consider evaluating the appropriateness of its planning, leadership and communication arrangements by formally considering the questions in the self-appraisal checklist.

Action plan point 10

Housing benefit risk assessment

- 111.** In September 2014 Audit Scotland carried out a risk assessment on the Comhairle's housing benefit service. In a previous assessment, carried out in 2011, Audit Scotland noted a lack of progress in addressing risks that had been identified as part of the risk assessment carried out in 2009.
- 112.** In the most recent assessment, Audit Scotland noted considerable improvement by the Comhairle in relation to the planning and performance of the housing benefit service. It was noted that out of 30 risks raised in 2011 report:
- 23 risks have been fully addressed by the Comhairle;
 - 3 risks are no longer applicable;
 - 4 risks have not been addressed in full.
- 113.** The four risks that have been assessed as 'not addressed in full' relate to the improvement in accuracy and counter-fraud arrangements. Audit Scotland's report and associated action plan is expected to be presented for consideration by elected members in October 2014.

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

- 114.** In our opinion the Comhairle's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by 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.

Appendix 1: Respective responsibilities of the Comhairle and the Auditor

Responsibility for the statement of accounts

The Comhairle is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Director of Finance and Corporate Resources has been designated as that officer within Comhairle nan Eilean Siar.

The Director of Finance and Corporate Resources is responsible for the preparation of the Comhairle's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the financial statements, the Director of Finance and Corporate Resources is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- complying with the Code.

The Director of Finance and Corporate Resources is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the group and the body for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

We are also required to report if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

Our main responsibilities under the Code of Audit Practice, in respect of best value, use of resources, performance and corporate governance can be summarised follows:

Best value, use of resources and performance

- To participate in arrangements established by the Accounts Commission to co-operate and co-ordinate activity with other scrutiny bodies, and where appropriate Scottish Ministers. These include, in particular, the arrangements established by the Accounts Commission for the planning of local government audit, inspection and scrutiny.
- To review and report on the Comhairle's arrangements to achieve best value (a team from Audit Scotland is primarily responsible for discharging this responsibility).
- To review and report on other aspects of the Comhairle's arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources.
- To review and report on the arrangements that the Comhairle has made to prepare and publish statutory performance information in accordance with directions issued by the Accounts Commission.

Corporate governance

- To review and report on the Comhairle's corporate governance arrangements as they relate to:
 - its review of its systems of internal control, including its reporting arrangements;
 - the prevention and detection of fraud and irregularity;
 - standards of conduct and prevention and detection of corruption; and
 - the Comhairle's financial position.





Appendix 2: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. 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. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the 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.

Action plan grading structure

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:

Grade 1 	“Critical” – High likelihood, High impact (HH) “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”
Grade 2 	“Contingent/Insurable Risk” - Low likelihood, High impact (LH) “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”
Grade 3 	“Housekeeping” – High likelihood, Low impact (HL) “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”
Grade 4 	“Value for Money” – High likelihood, Value for money impact (HV) “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”

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
1.	36	<p>An Cotan</p> <p>In 2012 the Comhairle entered into an Agreement with Lews Castle College (LCC) to oversee and fund the construction of a pre-school nursery, An Cotan. During the year, the construction of An Cotan was completed and the nursery is now operational in line with the Agreement.</p> <p>The Comhairle has imposed restrictions on the use of the asset by the LCC for the duration of the lease. The Comhairle should ensure appropriate arrangements are in place to monitor the use of the nursery on an annual basis for the duration of the Agreement. Should LCC breach the conditions imposed by the Comhairle on the use of An Cotan, the Comhairle may need to revisit the accounting treatment for this asset.</p>	Grade 3	<p>Arrangements in place to receive annual assurance that terms being adhered to.</p> <p>Responsible officer: Head of Economic Development</p> <p>Completion date: September 2014</p>
2.	39	<p>Property, plant and equipment</p> <p>During our audit of the financial statements we noted that parts of the grounds of the Nicolson Institute Secondary School and Daliburgh Primary School are leased from Stornoway Trust and South Uist Estate respectively in return for annual payments. Both lease agreements are for 60 years. At present these parcels of land are being accounted for as if they are owned by the Comhairle.</p> <p>In accordance with International Accounting Standard 17 'Leases' we believe the leased parcels of land should not be included in the Comhairle's balance sheet as property, plant and equipment.</p> <p>We were unable to determine an appropriate value for the owned and leased elements of land at the two sites. Based upon on the current valuations however, any proposed adjustment would not materially misstate the financial statements.</p> <p>Nevertheless the Comhairle should ensure compliance with IAS 17 and resolve this issue going forward.</p>	Grade 3	<p>Revised treatment of leases will be adopted for 2014/15 Accounts.</p> <p>Responsible officer: Principal Accountant (Corp)</p> <p>Completion date: March 2015</p>

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
3.	42	<p>Significant trading operations</p> <p>In June 2013, the LASAAC issued new guidance on STOs. This guidance provided details of the conclusions of the Trading Operations Review Group which was established to undertake a post-legislative review of implementation practices. The guidance recommends that the identification of an STO should focus only on those services or activities which are external to the 'single entity' local authority and which are not statutory in nature. The Comhairle should consider this guidance and assess if it is necessary to reclassify any of its trading operations as significant.</p>	Grade 3	<p>Will review classification in light of this guidance and any necessary changes adopted for 2014/15.</p> <p>Responsible officer: Chief Accountant Completion date: December 2014</p>
4.	77	<p>Statutory performance indicators</p> <p>Internal audit in its review of the Comhairle's statutory performance indicators noted that two directorates did not submit their performance information in line with internal deadlines. This resulted in this data not receiving final quality assurance checks by the appointed monitoring officer.</p> <p>We recommend that directorates ensure that they meet these deadlines in order to protect the accuracy of the reported indicators.</p>	Grade 3	<p>Agreed. Reminder to be sent to Directors.</p> <p>Responsible officer: Director of Finance and Corporate Resources Completion date: September 2014</p>
5.	78	<p>Statutory performance indicators – 'reduction in the number of overpayments required due to payroll error'.</p> <p>We found that one out of the five overpayments tested was in fact an underpayment. While this is still an error in payroll processing it is inconsistent with the definition used. We recommend that management either revise the definition or review arrangements for the calculation of this indicator.</p>	Grade 3	<p>Agreed.</p> <p>Responsible officer: Head of Exchequer Services Completion date: October 2014</p>

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
6.	78	<p>Statutory performance indicators – ‘percentage of adults satisfied with local schools’.</p> <p>We were unable to gain assurance over the accuracy of this figure as paper copies of the surveys completed had not been retained. These surveys account for approximately 60% of the total number of responses used to calculate this performance indicator.</p> <p>The Comhairle should consider extending the time period for retention of these documents to ensure a robust audit trail is retained.</p>	Grade 3	<p>Agreed.</p> <p>Responsible officer: Director of Education and Children’s Services</p> <p>Completion date: October 2014</p>
7.	78	<p>Statutory performance indicators – ‘percentage of unemployed people assisted into work from council operated /funded employability programmes’.</p> <p>We identified that this indicator was understated due to a small number of individuals entering employment in March 2014 who had not yet been entered onto the system.</p> <p>We recommend that management ensure such individuals are included within the indicator calculation</p>	Grade 3	<p>Agreed.</p> <p>Responsible officer: Team Leader Leisure & Learning</p> <p>Completion date: October 2014</p>

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
8.	78	<p>Statutory performance indicators – ‘percentage of staff undertaking procurement activity levels 1-4 assessed for skills competency levels.’</p> <p>We identified four employees, who had been omitted from the calculation of this indicator in error. This was subsequently amended for 2013/14.</p> <p>We recommend that management consider revising data collection arrangements for this indicator and ensure that figures undergo full and complete quality assurance checks.</p> <p>We also noted that this indicator uses only the completion of level 2 training as a proxy for the completion of levels 2-4. No consideration is made of level 1 completion rates. Furthermore staff who undertook training in 2012/13 were included in the calculation of the 2013/14 indicator. Performance information should relate to activities undertaken in the current financial year only.</p>	Grade 3	<p>Data collection arrangements are adequate but spreadsheet revised to reduce potential for omission.</p> <p>A cumulative indicator better expresses the level of risk arising from staff not being trained. An annual figure would overstate risk and not be of use to elected members.</p> <p>Responsible officer: Head of Exchequer Services Completion date: October 2014</p>
9.	78	<p>Statutory performance indicators – ‘sundry debts: cost per invoice’.</p> <p>We noted that both the cost of collection and number of invoices used to calculate this indicator were incorrect.</p> <p>Management have amended the reported figure in light of these findings. We recommend however that quality assurance checking procedures are reviewed to ensure timely detection of such errors.</p>	Grade 3	<p>Agreed. Reports for sourcing data updated.</p> <p>Responsible officer: Business Manager Completion date: October 2014</p>

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
10.	110	<p>National fraud initiative</p> <p>In June 2014 Audit Scotland published The National Fraud Initiative in Scotland 2012/13 which provides guidance and recommendations for the participants to consider in preparation for the 2014/15 NFI exercise. The report includes a self-appraisal checklist which participants are encouraged to use to appraise their involvement in NFI prior and during the exercise.</p> <p>In the past the Comhairle has been subject to criticism for the lack of adequate arrangements in relation to the NFI. The Comhairle should consider evaluating the appropriateness of its planning, leadership and communication arrangements in respect of NFI by formally considering the questions in the self-appraisal checklist.</p>	Grade 4	<p>Completed and report submitted to October committee meeting</p> <p>Responsible officer: Head of Exchequer Services</p> <p>Completion date: October 2014</p>

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