



**Scott-Moncrieff**  
business advisers and accountants

# **Comhairle nan Eilean Siar**

Annual report on the 2015/16 audit  
to the Comhairle and the Controller of Audit

**September 2016**

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# Executive summary

## Annual accounts

The annual accounts for the year ended 31 March 2016 were approved by the Audit and Scrutiny Committee on 26 September 2016. We reported within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters and there were no matters which we were required to report by exception.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the Comhairle for their assistance with our work.

## Financial management

The Comhairle has adequate arrangements in place for managing its financial position and its use of resources. The general fund surplus reported in 2015/16 (£1.5million) compares favorably to the budgeted deficit set at the start of the year (£1.488million).

We have evaluated the Comhairle's key financial systems and internal financial controls and determined whether these are adequate to prevent material misstatements in the financial statements. We have not identified any significant deficiencies in the operation or design of the key financial systems. Arrangements for the prevention and detection of fraud and irregularity are operating effectively.

## Financial sustainability

The Comhairle has prepared a budget strategy which covers the term of the Comhairle. The most recent strategy covers the period 2016-18. The budget strategy identifies the savings projections over the period to 2026/27.

The Comhairle has started to consider the development of a forward strategy. A member seminar is due to be held in October 2016 to consider the long term financial projections for 2017-2027; the human resources and workforce planning strategy for 2018-21; and the budget strategy for 2018-21, including the approach to future service choices.

The Comhairle's capital programme covers the five years 2013-18 and totals £96million. Although, slippage has been reported against the capital programme over the last three years, £60.4million (62%) has been delivered three years into the five programme. This is in line with expectations and the

- The Comhairle spent £147.159million on the provision of public services in 2015/16.
- Cash backed reserves held by the Comhairle were £25.009million as at 31 March 2016; of which £21.720million relates to general fund balances.
- During 2015/16 the Comhairle invested £20.180million in property, plant and equipment.
- 'Budget shortfalls' of £4.865million in 2017/18 and £7.940million in 2018/19 are forecast.
- As at 31 March 2016, 68% of the Comhairle's key performance indicators were on target, 7% were close to target and 25% had not met the target.

Comhairle remain confident that it will be able to deliver its programme through to 2018.

Cùram is Slàinte nan Eilean Siar (the Western Isles Integrated Joint Board; "IJB") was established as a legal entity on 21 September 2015. It became operational from 1 April 2016. The overarching governance and operational arrangements for the IJB continue to develop.

## Governance and transparency

In our opinion, the Comhairle's corporate governance arrangements as they relate to the standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate. We have noted a couple of recommendations to further strengthen the Comhairle's risk management arrangements.

## Value for money

2015/16 is the first year in which the Comhairle has adopted the Public Sector Improvement Framework (PSIF). The first corporate self-assessment the Comhairle carried out using the PSIF was on 'customer services'. This work has been reported on to the Continuous Improvement Sub-Committee and improvement actions are being taken forward as a result of this work.

Based on our audit work, we concluded that the Comhairle has adequate arrangements in place for the

collection and publication of statutory performance indicators.

## **Conclusion**

This report concludes our audit of Comhairle nan Eilean Siar for 2015/16. 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 for their co-operation and assistance during our audit.

**Scott-Moncrieff**  
**September 2016**

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# Introduction

# Introduction

1. This report summarises the findings from our 2015/16 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 2015/16 have been:
  - Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
  - An audit of the annual accounts;
  - 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;
  - Completion of targeted follow up work in relation to Audit Scotland’s national performance report “*Scotland’s Public Sector Workforce*”; 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 annual accounts 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 annual accounts 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 contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. Each recommendation has been given a grading to help the Comhairle assess their significance and prioritise the actions required.
6. 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).
7. We would like to thank all members of the Comhairle’s management and staff who have been involved in our work for their co-operation and assistance during our audit work.

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# Annual accounts

# Annual accounts

8. The Comhairle's annual accounts 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 annual accounts are outlined in Appendix 1.
9. In this section we summarise the issues arising from our audit of the 2015/16 annual accounts.

## Overall conclusion

### An unqualified audit opinion on the annual accounts

10. The annual accounts for the year ended 31 March 2016 were approved by the Audit and Scrutiny Committee on 26 September 2016. We reported within our independent auditor's report:
  - An unqualified opinion on the annual accounts; and
  - An unqualified opinion on other prescribed matters.

### Good administrative processes were in place

11. 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.

### Our assessment of risks of material misstatement

12. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 1 below.

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1.1 Revenue recognition

Under ISA 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 in such a way as to lead to a material misstatement in the reported financial position.

*Noted in 2015/16 External Audit Plan*



13. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the Comhairle's revenue recognition policy is appropriate and has been applied reasonably.



# Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

## 1.2 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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240.

*Noted in 2015/16 External Audit Plan*



- 14. While we did not suspect any incidences of management override leading to financial reporting issues, we reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly. Based on our audit work to detect potential material misstatement via a range of controls, we have not identified any indications of such management override during the year.

## Our application of materiality

- 15. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
- 16. Our initial assessment of materiality for the group annual accounts was £1million. We revised our assessment, following receipt of the draft annual accounts, to £1.6million and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including gross service expenditure and useable reserves). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the Comhairle and its group.
- 17. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	40%	£640,000
Medium	55%	£880,000
Low	75%	£1.2million

- 18. We agreed with the Audit and Scrutiny Committee that we would report to the Committee all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Scrutiny Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

## Audit differences

- 19. We are pleased to report that there were no material adjustments to the draft annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.
- 20. We also identified potential adjustments which are not considered material to the annual

accounts, 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 annual accounts.

## An overview of the scope of our audit

21. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Scrutiny Committee in February 2016. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Comhairle. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
22. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
23. Our standard audit approach is based on performing control tests on the significant accounting systems, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

## Legality

24. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. 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.

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

## Other matters identified during our audit

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

### The Local Authority Accounts (Scotland) Regulations 2014

27. As part of our audit we reviewed the Comhairle's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10<sup>1</sup> as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

### Management commentary

28. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts.
29. As part of our audit we also reviewed the Comhairle's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015). We considered the extent to which the Comhairle's management commentary included relevant information in respect of:

- The context of the annual accounts;
- Insight into the priorities of the Comhairle and strategies adopted to achieve those priorities and objectives;
- Information on future plans;

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<sup>1</sup> Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

- KPIs which measure progress against objectives/priorities; and
- Information on the principal risks and uncertainties facing the Comhairle.

30. 2014/15 was the first year the Comhairle was required to include a management commentary in the annual accounts. In our 2014/15 annual report on the audit we noted that while the Comhairle had, in the main, addressed the key requirements of the Circular, there were a couple of areas where we considered the management commentary could be further developed.

31. From our review of the 2015/16 management commentary, in our opinion, the Comhairle could further develop the following areas:

- **Information on future plans** – The Comhairle's management commentary focuses on the financial outlook and future uncertainty over funding and financial plans. We would encourage the Comhairle to include commentary in the context of the corporate strategy and community plan objectives and how they aim to achieve these.
- **Principal risks and uncertainties facing the authority** – The Comhairle's management commentary outlines the risk and uncertainties facing it in respect of the future financial outlook. This section could be further expanded to cover more than just the financial aspects of the risks facing the Comhairle. The Comhairle should draw upon those risks identified in its corporate risk register.

#### **Action plan point 1**

#### **Annual governance statement**

32. The Chief Executive and the 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.

33. 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 Governance Statement are reasonable and appropriate.

#### **Remuneration report**

34. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.

35. During our audit, we noted the following information had been omitted from the unaudited Remuneration Report,

- compensation payments for loss of office relating to Comhairle's senior employees who left the organisation during the year;
- annual remuneration for senior employees who had left during the year (for those senior employees who serve less than the full relevant financial year, the salary element of remuneration is increased to what the person would have been paid had they been employed for the whole year);
- the salary element of remuneration for senior employees who work on a part time basis increased to what it would have been had the person been paid for usual full time hours at the same hourly rate; and
- five exit packages; for employees who did not leave the organisation in 2015/16 but for which exit packages were agreed during the year. (Refer to paragraph 37 below).

36. The Remuneration Report has since been revised to correct for the above observations and a small number of other minor disclosure changes. We are satisfied that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

#### **Exit packages**

37. The 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and The Local Authority Accounts (Scotland) Regulations 2014 require authorities to disclose the number and total cost of exit packages in the Remuneration Report. The Comhairle has disclosed in its annual accounts, for 2015/16, 19 exit packages at a total cost of £962,650 (2014/15: 42 exit packages; £1.441million).

38. This disclosure requirement applies to exit packages that have been 'agreed' during the year. A package is not 'agreed' until the offer has been accepted by the employee, and preferably 'signed off' or reasonably certain to be by 31 March 2016. Any offers rejected after 1 April 2016 indicates the package has not been agreed.
39. We noted during our audit, that the Comhairle currently discloses exit packages in the year in which they are paid and not when they are agreed.
40. We identified five exit packages which were 'agreed' during 2015/16 but not disclosed, in line with the Code, in the exit package note. We also identified one exit package agreed in 2014/15 but included in the 2015/16 exit package note instead of the 2014/15 note. Should these exit packages have been disclosed in the correct year, the cost of exit packages in 2015/16 would be reduced by £2,489; which is not deemed material to the annual accounts.

#### Action plan point 2

#### Equal pay

41. The Comhairle has disclosed in its 2015/16 annual accounts an unquantified contingent liability in respect of equal pay compensation claims. At 31 March 2016 the Comhairle had approximately seven live equal pay claims outstanding. During 2015/16 a total of three claims were settled at a cost of £5,000. The liability for equal pay claims is reviewed annually based on the likelihood and proximity of the settlement of these claims. We are satisfied that the Comhairle has accounted for equal pay compensation claims in accordance with International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*.

#### Lews Castle private sector operator

42. On 2 June 2015 Kenman Holdings Limited (operator of three hotels in the Western Isles) raised a petition for a judicial review of the Comhairle's decision to award the above contract to another body. The petition alleged that the procurement process was defective and is seeking a redaction of the award of decision and substantial damages. In December 2015, the Court of Session ruled in favour of the Comhairle on a preliminary point of law and dismissed the Petition.

43. The Court of Session has now set out the timetable for the submission of Grounds of Appeal, and Answers to these from the Comhairle and other parties, in respect of the Appeal lodged by Kenman Holdings against the decision to dismiss the Company's action for Judicial Review. The hearing is scheduled for November 2016.
44. A contingent liability has been disclosed in the Comhairle's annual accounts. We have reviewed the accounting treatment adopted and concluded that it is consistent with the requirements of the International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*.

#### Waste management facility equipment

45. The Comhairle has disclosed in its 2015/16 annual accounts a contingent liability (£0.5million) in respect of litigation with a contractor where the final payment was withheld due to concerns over the performance of supplied equipment. The outcome is likely to be known early in 2016/17. We have reviewed the accounting treatment adopted and concluded that it is consistent with the requirements of the International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*.

## Looking forward

#### Highways Network Assets

46. The 2016/17 edition of the Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the Code of Practice on the Highways Network Asset. This will require Highways Network Assets (HNA) to be measured on a depreciated replacement cost basis (currently valuation is based on historic cost). The HNA comprises urban and rural roads, footways and cycle tracks, street lighting, furniture, associated land and highways infrastructure such as bridges. The move to a depreciated replacement cost basis will have a significant impact on values currently included in local authority balance sheets. For example the current estimated depreciated replacement cost of the Comhairle HNA is approximately £940 million compared to an historic cost valuation of £67million.
47. There is no requirement to change preceding

information and the change should be accounted for as an adjustment of the opening balance at 1 April 2016.

48. The move to depreciated replacement cost for HNA is a significant change to the Comhairle's financial accounting arrangements and has involved significant work to bring together information on the highways network within the accounting records of the Comhairle. As part of our 2015/16 audit we have considered the Comhairle's progress in preparation for the implementation of the new requirements.
49. In line with the recommendations in the LAAP Bulletin 100 *Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17* the Comhairle devised a project plan built on the information identified through the impact assessment undertaken to identify gaps in existing information, systems and processes.
50. As the valuation of the carriageway represents approximately 94% of the total HNA value, key to establishing an accurate value within the financial statements is establishing the carriageway lengths, widths and condition. In arriving at this information the Comhairle has used information from the National Street Gazetteer and digital information extracted from Ordnance Survey to arrive at road lengths and widths; with road condition being determined by a condition survey undertaken on road surfaces. The frequency the survey is carried out depends on the nature of the carriage way eg 'A' class roads are surveyed once per year each way, unclassified roads are surveyed on a random sample basis using a rolling 4 year basis.
51. Alternative approaches have been adopted by other Councils to derive road lengths and widths including using polygons plotted on ordinance survey master maps. These have been proven to arrive at different and arguably more accurate figures in determining carriageway lengths. The Comhairle currently has no plans to base its asset lengths on polygons. The Comhairle needs to consider what level of materiality it is using in preparing the financial statement i.e. the threshold above which missing or incorrect information used in computing the HNA value in the financial statements is considered to have an impact on the decision making of users. We recommend

that in using this materiality threshold further consideration is given to using a methodology based on polygons.

*Action plan point 3*

52. Rates used to arrive at replacement cost values for carriageways are being considered at a national level as are the regional factors to be applied. It is however unclear when these centrally derived rates will be available and we recommend that the Comhairle continues to use its professional networks to establish when reliable costing information is available.

*Action plan point 3*

53. Inevitably there is significant estimation uncertainty in using the proposed methodology for valuing HNA. The Section 95 officer should look for assurances nationally and from roads and transportation colleagues that:

- The register of HNA items including lengths, widths and condition is materially correct;
- The methodology used to arrive at these figures is appropriate for local circumstances and that it will provide a materially accurate figure for the financial statements;
- The model, central rates and individual regional factors used in the calculation of HNA values have been sufficiently verified in line with the CIPFA Code requirements.

*Action plan point 3*

54. The impact of including HNA's in the financial statements is significant. The section 95 officer is likely to require independent assurance as to the accuracy of the figures and assumptions used.

*Action plan point 4*

### Follow up of prior year audit recommendations

55. As part of our audit we have followed up on recommendations we have raised in our 2014/15 Annual Report to the Comhairle and the Controller of Audit. Further details on these recommendations are included in the action plan at Appendix 2.

Number of recommendations raised	Complete	Not yet complete
8	7	1

56. Those actions which are yet to be fully completed relate to the following areas:

- Management commentary (paragraph 31)

### Qualitative aspects of accounting practices and financial reporting

57. During the course of our audit, we consider the qualitative aspects 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 annual accounts. 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 annual accounts, 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 annual accounts. Significant estimates have been made in relation to property plant and equipment, provisions, pension liabilities and arrears. We consider the estimates made, and the related disclosures, to be appropriate to the Comhairle.
The potential effect on the annual accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual accounts.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the annual accounts (beyond the existing disclosures made).
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual accounts.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the Management Commentary or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies with the annual accounts in the Management Commentary.
Any significant financial statement disclosures to bring to your attention.	There are 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.

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# Financial management



# Financial management

58. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

## The Comhairle's financial performance in 2015/16

59. The Comprehensive Income and Expenditure Statement for 2015/16 shows that the Comhairle spent £147.159million on the provision of public services, resulting in an accounting surplus of £9.045million. However, the accounting surplus includes certain elements of income and expenditure that need to be accounted for to comply with the Code of

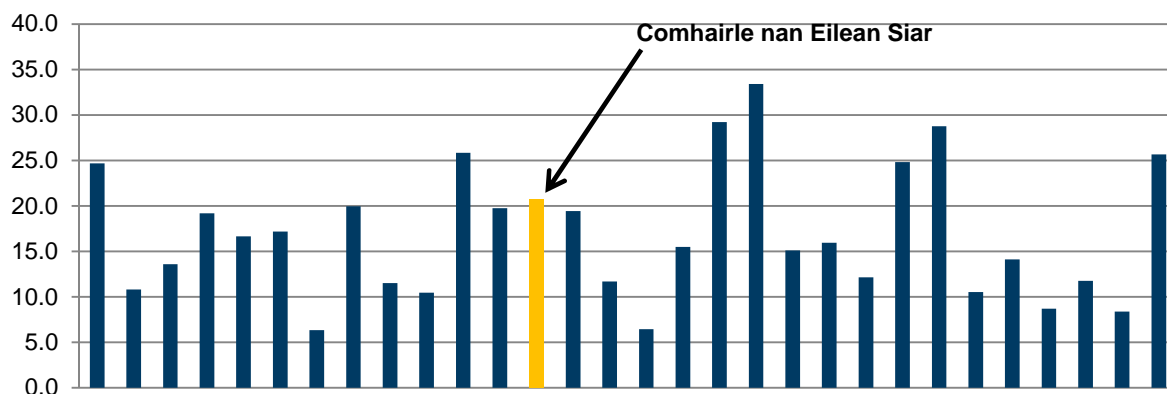
Practice on Local Authority Accounting in the United Kingdom (the 2015/16 Code), and which are subsequently adjusted to show their impact on statutory Comhairle reserves.

60. The key measure of performance in the year is the movement in the Comhairle's general fund balance. Following the required adjustments the net impact on the general fund is an increase of £1.522million to £21.720million. In total the cash backed (useable) reserves held by the Comhairle increased by £3.041 million in the year to £25.009million.

Movement in the Comhairle's useable reserves per the Annual Accounts 2015/16	2015/16 £million	2014/15 £million	Movement £million
General Fund	21.720	20.198	1.522
Capital Fund	0.106	0.106	-
Capital grants unapplied account	3.138	1.313	1.825
Capital receipts	0.045	0.351	(0.306)
<b>Total useable reserves</b>	<b>25.009</b>	<b>21.968</b>	<b>3.041</b>

61. The Comhairle's useable reserves (which includes the general fund balance and other reserves), as a percentage of the net cost of services, against 30 other local authorities is shown in Exhibit 2. Comhairle nan Eilean Siar's ratio of 21% remains close to the both the mean (17%) and the median (16%) for the sector in 2015/16 and does not indicate any concern about financial management or sustainability.

## Exhibit 2 – Useable reserves as a % of net cost of services (30 local authorities)



The chart has been compiled from data made available by Audit Scotland and Shetland and Orkney Islands Councils have been omitted from the comparison as their level of reserves may distort the assessment.

62. The Comhairle's general fund balance at 31 March 2016 comprises £16.2million (75%) committed for specific purposes, including £4.9million set aside to contribute to the budget savings required over the period 2016-18. This leaves an uncommitted balance of £5.5million (25%) which is £2million in excess of the Comhairle's approved reserve level of £3.5million. The Comhairle reviews the level of general fund held annually as part of the budget setting process.

63. The general fund surplus reported in 2015/16 (£1.522million) compares favourably to the budgeted deficit set at the start of the year of £1.488million. The surplus position is mainly the result of underspends within service budgets.

### Capital position

64. The Comhairle's capital programme covering the five years 2013-18 was agreed at its meeting on 28 March 2013. The revised capital programme is estimated at £96 million. Included in this total are projects carried forward from the 2008-13 programme (£38million), all of which are now underway.

65. In 2015/16 the capital outturn was £20.180million (£18.006million in 2014/15). A number of projects were delayed in the year resulting in slippage of £2.5million against the approved annual programme. These included the Lews Castle and Museum Nan Eilean project, Leverhulme School and Community Grant Schemes payable to third parties. Total expenditure to date on the 2013-18 programme

is now at £60.4million (62%). This is in line with the Comhairle's expectations, three years into a five year programme and the Comhairle remains confident of successful delivery by 2018.

### Systems of internal control

66. We have evaluated the Comhairle's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended. We undertake detailed controls testing every three years, or more frequently where the key controls have changed.

67. We consider that the Comhairle has adequate systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses in the Comhairle's accounting and internal financial control systems. We have however identified some areas with scope for improvement. We also noted during the year that some of our recommendations raised in previous reports on systems of internal control are yet to be fully implemented. Our findings are detailed in Appendix 2.

#### Action plan points 4-6

68. Our conclusions have been reached following consideration of the following key financial systems, as set out in our External Audit Plan:

## Exhibit 3 – Key financial systems evaluated in 2015/16

Council tax	Non domestic rates	Cash receipts and banking	Housing benefit	Sundry income
Payroll	Ordering and creditor payments	Treasury management	Financial ledger	Members remuneration / expenses

### Internal audit

69. The Comhairle's internal audit service is an independent assurance function that provides an opinion on the Comhairle's control environment. 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.
70. Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. To ensure an efficient use of the Comhairle's total audit resource we have established appropriate working arrangements with internal audit. Each year we aim to place reliance on the work of internal audit where appropriate. Prior to placing such reliance we review the internal audit function to ensure that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS). We also consider whether the work carried out by internal audit is sufficient in terms of quality and volume.
71. We have concluded that internal audit operates in accordance with the PSIAS and as a result we have been able place reliance on the work of internal audit where appropriate.
72. A formal external quality assessment of internal audit's compliance with the PSIAS is required at least once every five years. The national grouping of Heads of Internal Audit of Scottish councils has developed a framework to meet the requirement for an external assessment through a peer review process. The peer review process of the Comhairle's compliance has begun and was informed by the self-

assessment completed during 2014/15. The external quality assessment of the Comhairle's internal audit service was carried out by the Chief Internal Auditor of Orkney Islands Council during 2015/16. This review identified that, whilst there were minor areas with scope for improvement identified, the Comhairle's internal audit service **fully conforms** with the PSIAS.

### Fraud and irregularity

73. In accordance with the Code of Audit Practice, we have reviewed the Comhairle's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Comhairle's arrangements for fraud and irregularity to be operating effectively.

### National Fraud Initiative

74. 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 overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies.
75. The most recent NFI exercise commenced in October 2014. As part of our 2015/16 audit we have monitored the Council's participation in NFI. We submitted an assessment of the Council's participation in the exercise to Audit Scotland in February 2016. Overall we concluded that the Council's arrangements for the 2014/15 exercise were satisfactory.



# Financial sustainability

# Financial sustainability

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

## Revenue budget 2016/17

77. In February 2016 the Comhairle approved a balanced budget for 2016/17. The budget identified available resources of £105.731million, comprising revenue support through the Local Government Finance Settlement of £96.477million (inclusive of non-domestic rate income) and council tax income of £9.254million.

78. Expenditure requirements for 2016/17 were estimated at £114.156million. These have been offset by an agreed savings package of £6.234million; leaving a residual deficit of £2.191million to be funded through the planned application of general fund balances.

79. Setting a balanced budget for 2016/17 has been particularly challenging. The Comhairle recognises that the financial challenge is unlikely to reduce in the short to medium term and it anticipates budget shortfalls of £4.865million in 2017/18 and £7.940million in 2018/19.

Forecast funding position	2017/18 £m	2018/19 £m
Expenditure requirements	(102.929)	(101.572)
Resources available	107.794	109.512
Forecast funding gap	(4.865)	(7.940)

## Long term financial plans

80. Since 2013 the Comhairle has been developing its long term financial model. This draws upon census figures, population projections, delivery models and cost estimates. The long term financial model (which shows the forecast funding position) was most recently updated in June 2016.

81. In April 2015, the Comhairle agreed its overall budget strategy for the period 2016-18 (covering the term of the Comhairle). The

budget strategy identifies savings projections over the period to 2025/26 (subsequently updated to reflect the period to 2027).

82. In developing the budget strategy the Comhairle also agreed seven workstreams to address the financial challenges which it may face over this period. These seven workstreams are; budget review; workforce planning; saving proposals; spend to save and income generation; category review; budget choices; and budget consultation.

83. The Comhairle has started to consider the development of a 'forward strategy'. A member seminar is due to be held in September/October 2016 to consider the long term financial projections for 2017-2027; the human resources and workforce planning strategy for 2018-21; and the budget strategy for 2018-21, including the approach to future service choices.

## Future capital plans

84. Major capital developments for 2016/17 include the construction of the North Uist primary school, Ardseileach Care Development and the development of the Lews Castle project, with the two projects accounting for approximately 38% of the 2016/17 capital budget. The Comhairle does not expect to incur new borrowing to fund its current capital programme. The 2013-18 programme is largely expected to be funded through Scottish Government grant funding, grant funding from other sources, application of capital receipts and through underspends on 2008-13 capital projects. The capital programme is continuously updated to incorporate additional sources of funding secured by the Comhairle.

## Western Isles School Project (WISP)

85. During the construction phase, the WISP was managed by Sgoiltean Ùra LLP (SULLP), a subsidiary wholly owned by the Comhairle. Lifecycle maintenance and facilities management for the WISP schools are contracted to FES FM Ltd. Initially the responsibility for the supervision and management of the WISP contracts was expected to transfer from SULLP to the Contracts Management Committee, a subcommittee of the Comhairle's Policy and

Resources Committee during 2013/14. The Comhairle however is now considering whether to maintain the current position instead of transferring the contracts from SULLP.

86. The schools project was completed in 2014, SULLP effectively ceased trading on 31 March 2013. SULLP did not undertake any financial activities during 2014/15 and 2015/16.

#### Lews castle and museum project

87. The Lews Castle Project is a significant capital project within the Comhairle capital programme 2013-18. This £18.853million partnership project is to deliver the refurbishment and restoration of the Castle, the construction of a new museum and archive, and the development of hospitality facilities. The ground floor of the Castle and the Museum has recently opened to the public in July 2016. Construction on the third phase of the project has begun on the upper floor, development of hospitality facilities. These works are expected

completed to allow occupation in December 2016.

## Workforce

### Scotland's public sector workforce

88. In November 2013, the Accounts Commission and Auditor General for Scotland published Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.
89. As part of our 2015/16 audits, Audit Scotland asked us to undertake a follow up review to help understand the extent to which public bodies are implementing the recommendations and help identify common and emerging issues. A summary of our findings are highlighted below in exhibit 4 below:

### Exhibit 4: Summary of findings from targeted follow up

Theme	Audit findings
<b>Planning</b>	<p>During 2015/16 the Comhairle undertook a major workforce planning exercise. In developing its budget strategy over 2016-18 the Comhairle agreed seven workstreams, one of which was workforce planning. As part of the workforce planning workstream, Heads of Service were required to consider whether savings could be delivered through efficiencies, service redesign and potentially service reduction. These plans sought to ensure the Comhairle had both succession plans and a workforce of with the appropriate skills in place.</p> <p>The age profile and challenge to recruit to the Islands remain key risk areas for the Comhairle. The population is expected to fall by 11% by 2037 with an increase of 79% of residents who are over 75 years old. The Comhairle is taking measures to address this risk through, for example, the development and expansion of apprenticeship programmes (beyond traditional apprenticeships).</p> <p>A significant number of the Comhairle's employees fall within the 45-54 years age bracket, which is in line with the 'median' age for the population of the Outer Hebrides. The Comhairle acknowledges that retirement has an impact on the skills and knowledge held within the Comhairle.</p>
<b>Service delivery</b>	<p>The consequences of changes to the workforce are considered as part of the development of the service workforce plans. These plans include re-grading of posts and training requirements.</p> <p>The impact of any service redesign is, in part, measured through the employee survey. The Comhairle undertakes an employee survey every three years, and to date has completed three. The last survey was in 2015.</p> <p>The Comhairle has established early retirement, settlement agreements and redeployment of staff policies in place.</p>

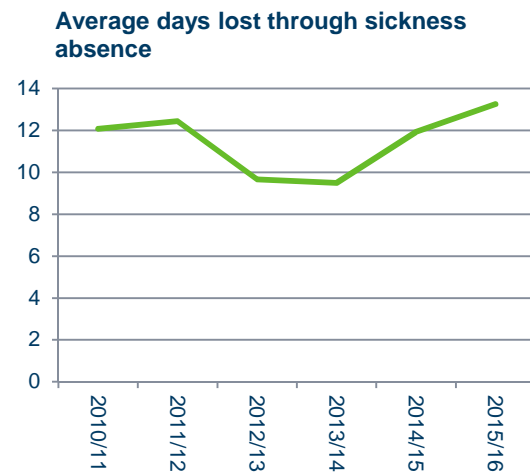
## Exhibit 4: Summary of findings from targeted follow up

Theme	Audit findings
<b>Challenge and Scrutiny</b>	<p>Service workforce plans are considered by the Comhairle's Voluntary Early Retirement/ Voluntary Redundancy Panel (Vacancy Panel) (comprising the Chief Executive, Director of Finance and Corporate Resources and Head of Human Resources). The Vacancy Panel manages and approves all early retirements and redundancies.</p> <p>The Comhairle's Continuous Improvement sub-committee acts as a sounding board for workforce planning proposals.</p>
<b>Reporting</b>	<p>The Comhairle's Human Resources sub-committee (comprising elected members) approves human resource changes that the Vacancy Panel does not have the delegated powers to review, scrutinize and/or approve. The Human Resource sub-committee receives an annual report from the Vacancy Panel of retirements and redundancies.</p> <p>The Comhairle monitors staff wellbeing through employee surveys. Over 40% of employees responded to the 2015 survey. The survey showed that employees' views on areas such as morale, job satisfaction and rating the Comhairle as a place to work have remained stable.</p>

### Sickness absence

- 90.** Increasing levels of sickness absence continues to be a concern for the Comhairle. Sickness absence rates in 2015/16 increased to 13.25 days per employee, an increase of 1.33 days from 2014/15. This is also above the average for the local government sector; in 2014/15 the average number of sickness absence days for employees (non-teachers) was 10.8 days.
- 91.** In response to the increase in sickness absence levels, the Comhairle is reviewing benchmarking data with comparator authorities in relation to sickness absence and considering intervention measures to be reported to the Human Resources sub-committee in September 2016. We endorse the action that the Comhairle is taking to address sickness absence.

### Exhibit 5: Sickness absence





## Health and social care integration

92. Cùram is Slàinte nan Eilean Siar (the Western Isles Integrated Joint Board; "IJB") was established as a legal entity on 21 September 2015 by the Public Bodies (Joint Working) (Integration Joint board Establishment) (Scotland) Amendment (No. 2) Order 2015.
93. From 1 April 2016 the IJB took on formal responsibility for the strategic planning and direction of health and social care services in the Western Isles. To inform the 2016/17 budget setting process, the Scottish Government issued guidance on the provision of financial assurance for health and social care integration. This guidance stated that the financial assurance process should enable the IJB, the local authority and health board to identify the resources to be delegated and the risks associated with the integrated functions.
94. The financial assurance process in respect of the Western Isles IJB took place during 2015/16.
95. In March 2016 internal audit reported on the financial assurance process from the perspective of the Comhairle. The report raised three low risk graded recommendations:
- Consideration be given to further financial assurance work being undertaken in collaboration with the IJB and NHS Eilean Siar in the medium and long term financial forecast.
  - Consideration be given on how future financial overspends, cost pressures and emerging risks are going to be dealt with.
  - Agree a process for the delegation of repairs and maintenance budgets and other overheads to the IJB.
96. This financial assurance process supported the development of the Comhairle's 2016/17 budget allocation to the IJB. After setting a baseline budget of £22.052million for social care services in 2016/17 (including £0.306million for the administration of the care and repair scheme), the Comhairle identified a range of cost pressures resulting in a total expenditure budget of £23.231million.
97. The expenditure budget was offset by the Comhairle's share (£0.82million) of the £250million funding announced by the Scottish Government to support expanding social care

## Exhibit 6: IJB Delegated Budget 2016/17

	£million
<b>2016/17 baseline Comhairle budget</b>	<b>21.746</b>
Care and Repair administration	0.306
New care packages established in 2015/16	0.354
Potential demand growth in 2016/17	0.383
Provision for NI and pensions contributions	0.442
<b>Revised budget for 2016/17</b>	<b>23.231</b>
Comhairle share of £125m	(0.820)
Demand growth funding	(0.383)
<b>Delegated expenditure budget</b>	<b>22.028</b>
Less Support Services	(1.672)
Less Capital Charges	(0.531)
<b>Delegated Budget by Comhairle</b>	<b>19.825</b>

services as part of integration. Taking in to account support services, and capital charges the budget delegated to the IJB for 2016/17 was £19.825million, as shown in exhibit 6.

98. The Integration Scheme outlines the high level governance arrangements for the IJB and the relationship between the Comhairle, the IJB and NHS Western Isles. The IJB Strategic Plan sets out the vision for the delivery of health and social care services across the Western Isles through to 2019.
99. The establishment of the IJB represents a significant change is the Comhairle's governance of social work, and related, services. In 2015/16 the IJB met as a shadow board, focusing on setting its own governance arrangements and preparing a Strategic Plan. During that time there was a degree of overlap in governance arrangements as the Western Isles Health and Social Care Committee (constituted as a sub-committee of the Comhairle and the Western Isles Community Health Partnership, a committee of the health board) continued to meet.
100. The Community Health Partnerships ceased to



formally exist on 1 April 2015. As a result there was a risk that governance arrangements over social work, and related, services may have been ineffective. However in practice, given the commitment by all parties to make decisions over health and social care services by consensus, no significant risks to effective governance were reported.

- 101.** In addition to social work services, the Comhairle opted to delegate criminal justice services to the IJB. During 2015/16, criminal justice services continued to report to the Comhairle's Environment and Protective Services Committee.
- 102.** The IJB Chief Officer has overall responsibility for the financial management of the IJB. Additionally, he is a member of the senior management team of both the Comhairle and the health board and is officially line managed by the Chief Executives of both parties. Amendments were made to the Comhairle's scheme of delegation during 2015/16 to reflect the role of the IJB Chief Officer within the Comhairle's governance structure. These changes were necessary to ensure that the IJB Chief Officer had the authority required to deliver and manage criminal justice and adult care social work services.
- 103.** Amendments were also required to the Comhairle's Scheme of Administration and scrutiny requirements in 2015/16 as a result of integration. The required changes were reported to the Policy and Resources committee in June 2016.

**5**

# Governance and transparency

# Governance and transparency

104. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the chief executive, monitoring officer 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. Audit bodies usually involve these charged with governance in monitoring these arrangements.

## Governance arrangements

105. During our audit 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 and risk management. Based on our review, overall governance arrangements are adequate and appropriate.

## Delivering good governance

106. During the year, the Comhairle undertook a review of its Local Code of Corporate Governance (the Local Code) against the CIPFA/SOLACE publication *Delivering Good Governance in Local Government Framework*. The purpose of the Local Code is to evidence the Comhairle's compliance with the framework and commitment to good governance.
107. A detailed action plan was developed in response to this review. The Comhairle plans to monitor this action plan annually through the Annual Governance Statement.
108. In Autumn 2016 new guidance notes are due to be published by CIPFA and SOLACE in relation to the previously published *Delivering Good Governance in Local Government Framework*. Once this guidance is made available we would encourage the Comhairle to reviewed and refresh its action plan.

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

109. 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.

## Risk management

110. Public sector bodies in Scotland continue to face increasing demand for quality services, but also have to face the challenge of tighter financial budgets. Effective risk management encourages effective decision making and better use of resources.
111. Although the Comhairle has made efforts to develop its risk management function we noted that minimal progress has been made in 2015/16. We noted a number of areas where planned actions and objectives have been delayed and where existing controls have either ceased to operate or have operated on a less frequent basis. These have been included within the action plan at Appendix 2 to this report.

*Action plan points 7-10*

## Following the public pound

112. Arms-length and external organisations (ALEOs) are defined as those organisations funded by a local authority to provide services which relate to the local authority's broader objectives. Funding for ALEOs can range from relatively small grants to voluntary and community organisations to significant funding to trusts set up by the local authority. These arrangements are often more complex than standard purchase contracts for goods or services and are usually designed to deliver wider public benefits.
113. It is important to be able to 'follow the public pound' across organisational boundaries. It should be possible to trace the funds from the point at which they leave the local authority to the point at which they are ultimately spent by

the receiving organisation. This ensures that public funds are used properly, accountability is maintained and value for money can be demonstrated.

implementation of the bill and continuing to lobby for the interests of Island communities.

114. Each year we consider the arrangements at the Comhairle has in place in relation to the management of its ALEOs. In line with previous years we have confirmed with the Director of Finance and Corporate Resources 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 Comhairle. As such the Director of Finance and Corporate Resources has concluded that there are, at present, no arrangements which would meet the definition of an ALEO.

### *Our Islands, Our Future*

115. Following the Independence Referendum in September 2014 and the subsequent publication of the Scotland Bill, the Comhairle, together with Orkney Islands and Shetland Islands Councils', have formed the 'Our Islands: Our Future'(OIOF) campaign. The overarching aim of OIOF is to ensure that the unique position and needs of the islands areas are recognised and consultation is held on how this can be addressed.
116. In September 2015, as a direct result of the OIOF campaign, a consultation began on a Future Islands Bill which ran until 23 December 2015. A total of 192 responses were received on a number of issues including;
- Islands proofing;
  - Empowering local communities;
  - A national islands plan;
  - Statutory Protection for the Na h-Eileanan an Iar Scottish Parliamentary constituency; and
  - Amendments to the Local Governance (Scotland) Act 2004
117. On 23 August 2016 the Island Bill was announced by newly appointed Minister for Transport and Islands. The Bill will be shaped by the findings of the consultation and is to be brought forward within the next 12 months. Following passing of the Bill the remit of the OIOF campaign will be revised to focus on

5

# Value for money

# Value for money

118. Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Comhairle's own reporting of its performance.

## Self-assessment activity by the Comhairle

119. Since 2015, the Comhairle has adopted the Public Services Improvement Framework (PSIF) to self-assess its activities (prior to this, the Comhairle used the 'How Good is our Council' framework).

120. The first corporate self-assessment the Comhairle carried out using the PSIF was on 'customer services'. In 2016, the outcomes from this review were considered by the corporate management team (CMT) and the Continuous Improvement Sub Committee. The CMT concluded that the area of corporate improvement should focus around the proactive use of available customer information using the Scottish Government's consultation approach of "we asked, you said, we did".

121. The first self-assessment undertaken in 2016/17 using PSIF is 'managing financial resources'. This was selected to provide insight into how departments are preparing to deliver services with the ongoing challenge of reducing budgets. It would also explore how risk assessments are being incorporated into the evaluation of option appraisals. The findings from this self-assessment are due to be considered by the Continuous Improvement Sub Committee this month.

## Continuous Improvement Sub Committee

122. The Continuous Improvement Sub Committee was established in 2015 and is responsible for:

- Proposing a programme of self-assessment using the PSIF methodology and monitoring implementation of identified improvements;
- Analysing project proposals and prioritising cross-departmental projects based on available resources and anticipated savings and benefits to be realised;
- Overseeing the progress of projects acting

as an executive or sounding board to ensure timescales are observed and financial and other targets achieved without slippage; and

- Acting as a sounding board in relation to workforce planning proposals and identify the cross departmental impact of such proposals.

123. In addition to the programme of self-assessment reviews noted above, the Continuous Improvement Sub Committee is currently monitoring progress in implementing the efficiency projects across the Comhairle.

124. We have considered the effectiveness of this sub-committee through review of its membership, the quality of the reports presented to it and review of minutes to ascertain whether there is an appropriate level of scrutiny. We are satisfied that the sub-committee is operating effectively to support continuous improvement.

## Statutory performance indicators

125. The Accounts Commission has a statutory duty to define the performance information that local authorities have to publish. The 2014 Direction, which applied to 2015/16, 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 2014/15, performance information must, when considered cumulatively, fulfil the requirements of SPI 1 (Corporate Management), SPI 2 (Service Performance) and SPI 3 (Local Government Benchmarking Framework (LGBF)).

126. Our role as auditors in 2015/16 was to assess and comment on the Comhairle's arrangements for collecting, recording and publishing performance information. We have held discussions with management and examined relevant committee reports in order to assess the arrangements in place.

127. We are pleased to report that we found the Comhairle's procedures to be appropriate and well adhered to by responsible individuals. Performance is monitored and reports produced through Interplan (the Comhairle's performance

management system).

**128.** In the context of the increasing maturity of the LGBF and the Accounts Commission's future approach to the audit of Best Value (with a focus on continuous improvement and outcomes) changes are to be made to both the requirements placed on local authorities and auditors in relation to Public Performance Reporting (PPR) arrangements. These changes are reflected in the 2015 Direction and will be applied in 2016/17. The main changes are as follows;

- The 2015 Direction will cover a three year period;
- Recognition will be given to the evolving maturity of the LGBF and the Accounts Commission's continued support for its development;
- The assessment of a local authority's approach to PPR will be incorporated into the new approach to auditing Best Value rather than carrying out a separate annual assessment of this aspect of a local authority's performance; and
- There will only be two SPI requirements; one covering PPR expectations and the other covering LGBF requirements.

Year	On target %	Close to target %	Off track %
2011/12	72	14	14
2012/13	71	9	20
2013/14	75	10	15
2014/15	77	5	18
2015/16	68	7	25

### Summary of performance

**129.** The Comhairle considers performance against business plans and budgets at each service committee meeting during the year.

**130.** The table below shows progress against the Comhairle's key performance indicators over the last five years; these include those reported under SPIs. Performance has been relatively consistent over the past five years. Further performance information is reported within the management commentary in the Annual Accounts.



# 6

## Appendices



# Appendix 1: Respective responsibilities of the Comhairle and the Auditor

## Responsibility for the preparation of the annual 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 annual accounts 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 annual accounts, 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 annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the Comhairle and its group as at 31 March 2016 and of the income and expenditure of the Comhairle and its group 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 2015/16 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 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 2014; and
- the information given in the Management Commentary is consistent with the annual accounts.

### 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 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.

## Independence

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.

# 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 annual accounts 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

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

Action plan point	Issue & Recommendation	Management Comments
1	<p><b>Management Commentary</b></p> <p>As part of our audit we reviewed the Council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015).</p> <p>From our review, in our opinion, there are areas which could be expanded on. In particular:</p> <ul style="list-style-type: none"> <li>Information on future plans – The Comhairle's management commentary focuses on the financial outlook and future uncertainty over funding and financial plans. We would encourage the Comhairle to include commentary in the context of the corporate strategy and community plan objectives and how they aim to achieve these.</li> <li>Principal risks and uncertainties facing the authority – The Comhairle's management commentary outlines the risk and uncertainties facing it in respect of the future financial outlook, This section could be further expanded to cover more than just the financial aspects of the risks facing the Comhairle. The Comhairle should draw upon those risks identified in its corporate risk register.</li> </ul>	<p>The Comhairle will take account of the recommendations in preparing the 2016/17 Management Commentary</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Corporate Resources</p> <p><b>Completion Date:</b> June 2017</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
31		

Action plan point	Issue & Recommendation	Management Comments
2	<p><b>Exit packages</b></p> <p>Exit packages that have been 'agreed' during the year should be disclosed in the Remuneration Report. A package is not 'agreed' until the offer has been accepted by the employee, and preferably 'signed off' or reasonably certain to be by 31 March 2016. Any offers rejected after 1 April 2016 indicates the package has not been agreed.</p> <p>We noted during our audit, that the Comhairle currently discloses exit packages in the year in which they are paid and not when they are agreed. The Comhairle should review its existing practice for disclosure on exit packages to ensure compliance with the Code and the Regulations.</p>	<p>The Comhairle will review the reporting of exit packages for the 2016/17 accounts in consultation with External Audit</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Corporate Resources</p> <p><b>Completion Date:</b> June 2017</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
40		

Action plan point	Issue & Recommendation	Management Comments
3	<p><b>Highways Network Assets</b></p> <p>As part of our 2015/16 audit we have considered the Comhairle's progress in preparation for the implementation of the new requirements in respect of accounting for Highways Network Assets. From our review we recommend the following:</p> <ul style="list-style-type: none"> <li>• Further consideration is given to using a methodology based on polygons;</li> <li>• The Comhairle continues to use its professional networks to establish when reliable costing information is available</li> <li>• The Section 95 officer should look for assurances nationally and from roads and transportation colleagues that: <ul style="list-style-type: none"> <li>• The register of HNA items including lengths, widths and condition is materially correct;</li> <li>• The methodology used to arrive at these figures is appropriate for local circumstances and that it will provide a materially accurate figure for the financial statements;</li> <li>• The model, central rates and individual regional factors used in the calculation of HNA values have been sufficiently verified in line with the CIPFA Code requirements.</li> </ul> </li> <li>• The section 95 officer should seek independent assurances as to the accuracy of the figures and assumptions used.</li> </ul>	<p>The Comhairle will take account of the recommendations in preparing the 2016/17 accounts.</p> <p>The work will be completed by Accountancy staff, in collaboration with relevant professional bodies and in consultation with External Audit.</p> <p><b>Responsible Officer:</b> Director of Finance and Corporate Resources</p> <p><b>Completion Date:</b> June 2017</p>
<b>Rating</b>		
<b>Grade 2</b>		
<b>Paragraph ref</b>		
51-54		

Action plan point	Issue & Recommendation	Management Comments
4	<p><b>Authorisation of starters and leavers forms</b></p> <p>Our testing of 30 new employees and 30 leavers processed in 2015/16 identified six instances of non-compliance with stated controls. On three occasions (two starters and one leaver) forms had been signed by an individual who was not authorised to do so. In a further two instances the leaver form had been processed and approved by the same individual.</p> <p>There is a risk that unauthorised amendments are made to the payroll system, which could result in incorrect payments being made to staff or misappropriation of assets.</p> <p>The Comhairle should ensure only appropriately authorised amendments are made to the payroll system.</p>	<p>The Comhairle will review the process for checking authorisation of leavers and starters</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Corporate Resources</p> <p><b>Completion Date:</b> March 2017</p>
Rating		
Grade 3		
Paragraph ref		
67		

Action plan point	Issue & Recommendation	Management Comments
5	<p><b>Leaver overpayments</b></p> <p>At the time of our audit, overpayments made to individuals who had ceased employment with the Comhairle totalled £11,300. This had occurred due to leaver forms not being submitted to the payroll department on a timely basis following the employee leaving.</p> <p>Invalid payments to individuals is indicative of a deficiency in internal controls. There is also a risk that the Comhairle is unable to recover these funds.</p> <p>Line managers should be reminded to inform payroll of leavers on a timely basis, to ensure overpayments do not arise. Appropriate action should be taken to recover overpayments processed to date.</p>	<p>Line Managers will be reminded again of the need to comply with Comhairle procedures.</p> <p><b>Responsible Officer:</b></p> <p>Head of Procurement and Exchequer Services</p> <p><b>Completion Date:</b> December 2017</p>
Rating		
Grade 2		
Paragraph ref		
67		

Action plan point	Issue & Recommendation	Management Comments
6	<b>Council tax reduction</b>	Agreed
<b>Rating</b>	The Comhairle are responsible for preventing and investigating council tax fraud, however it does not have policies or procedures in place to reflect this responsibility.	<b>Responsible Officer:</b>
<b>Grade 3</b>		Head of Procurement and Exchequer Services
<b>Paragraph ref</b>	The Comhairle should establish an approach to preventing and investigating Council tax fraud, which should be included within the Counter-fraud policy.	<b>Completion Date:</b>
67		March 2017

Action plan point	Issue & Recommendation	Management Comments
7	<b>Risk Management</b>	The Comhairle has agreed to fully implement the risk management module on its Performance Management System (Interplan)
<b>Rating</b>	Both strategic and operational risk registers for all departments are in place at the Comhairle.	<b>Responsible Officer:</b>
<b>Grade 2</b>	During our review of the operational risk registers we have identified that not all identified actions have been allocated responsible officers and baseline end dates. There is a risk that without responsible owners and/or documented timescales for identified actions, risks and risk mitigating controls may not be sufficiently managed at an operational level.	Chief Executive
<b>Paragraph ref</b>	The Comhairle should ensure that responsible officers and actions to mitigate risks are identified for all risks within operational risk registers.	<b>Completion Date:</b>
111		March 2017



Action plan point	Issue & Recommendation	Management Comments
8	<b>Frequency of risk reporting</b>	Risks will continue to be monitored by departments and reported to the Comhairle at each series of meetings.
<b>Rating</b>	The Comhairle has a formal Risk Management Strategy in place which details that in addition to an annual review of all risks, Directorates are responsible for reporting and monitoring risks on a quarterly basis. Quarterly reports are submitted to the Corporate Management Team (CMT) and the reporting of risk is presented to committee at each committee cycle.	The Strategic Risk Management Group will continue to review the Strategic Risk Register and quarterly departmental submissions at each meeting.
<b>Grade 3</b>		
<b>Paragraph ref</b>		
111	<p>In February 2016, it was agreed by the Strategic Risk Management group that quarterly reporting is to be replaced by at least one report to CMT and Committee covering annual monitoring, plan for the year, Strategic Risk Register (SRR) approval, and document updates. This is both non-compliant with existing Risk Management Strategy and not best practice.</p> <p>The IIA risk maturity model identifies 'Risk Managed' and 'Risk Enabled' organisations (those demonstrating good practice) as reviewing strategic risks on a quarterly basis. This is also a key theme in the Public Risk Management Association's (ALARM) National Performance Framework. There is a risk that annual reporting will not allow the Comhairle to gain appropriate assurance over risk mitigating controls, especially for high graded risks.</p> <p>The Comhairle should review the agreed reporting process within the Risk Management framework. As a minimum all high graded risks should be reported to the Strategic Risk Management Group on an on-going basis.</p>	<p>The Strategy Risk Management Group will review reporting arrangements for CMT,</p> <p><b>Responsible Officer:</b> Director of Finance and Corporate Resources.</p> <p><b>Completion Date:</b> March 2017</p>

Action plan point	Issue & Recommendation	Management Comments
9	<b>Operational risk monitoring</b>	Risk Review Groups were established to allow cross departmental review of risks to share best practice.
<b>Rating</b>	A Risk Review Group (RRG) has been established at the Comhairle which reports directly to the Strategic Risk Management Group (SRMG). The RRG is responsible for sharing and developing the operational risk management processes.	The reviews are in addition to the regular monitoring of operational risks by departmental which is monitored quarterly.
<b>Grade 3</b>	Within the terms of reference of RRG it is stated that meetings are to be held every two months across all Directorates. We have identified however that no such meetings have been held in 2015/16.	The Strategic Risk Group will consider if there is a need for such reviews to continue.
<b>Paragraph ref</b>	Without regular meetings at an operational level, there is a risk that the Comhairle and the SRMG cannot gain reasonable assurance that the operational risk management process is being appropriately monitored.	<b>Responsible Officer:</b> Director of Finance and Corporate Resources
111	The Comhairle should ensure that the RRG hold regular meetings across all directorates to gain assurance that the operational risk management process is being sufficiently monitored and managed.	<b>Completion Date:</b> March 2017

Action plan point	Issue & Recommendation	Management Comments
10	<b>Risk Management</b>	Whilst not on the system a risk register is in place.
<b>Rating</b>	During 2014/15 the operational risk register for the Social Care Services (SCS) department was removed from the risk management system, Interplan. This was done in order to facilitate a review and re-organisation of the risks within the directorate. Following this exercise we have identified that this operational risk register has not yet been added back onto the risk management system.	However, the Comhairle has agreed to fully implement the risk management module on Interplan which will address this issue
<b>Grade 3</b>	There is a risk that operational risks within the SCS department are not sufficiently managed and monitored as the departmental operational risk register is still not included within the corporate risk management system.	<b>Responsible Officer:</b> Chief Officer, Health and Social Care
<b>Paragraph ref</b>	The Comhairle should ensure that the SCS operational risk register is added to the risk management system to ensure that all risks are appropriately monitored and managed.	<b>Completion Date:</b> March 2017
111		

## Outstanding recommendations from previous audit reports on systems of internal control

Report Title	Issue & Recommendation	Management Comments
2013/14 Interim management report	<p><b>Council tax</b></p> <p>Training notes on the council tax system are available to staff. We noted however that these do not cover, for example, procedures relating to authorisation, spot checks and reconciliations.</p> <p>We recommend procedures are developed which cover the key controls over the council tax system.</p> <p><b>2015/16 Audit follow up</b></p> <p>Guidance procedures are in place for reconciliations and prior authorisation of refunds; however nothing has been produced for spot checks.</p>	<p>This will be addressed as part of the implementation of the new system.</p> <p><b>Responsible Officer:</b></p> <p>Head of Procurement and Exchequer Services</p> <p><b>Completion Date:</b></p> <p>April 2017</p>
Rating		
Grade 3		

Report Title	Issue & Recommendation	Management Comments
2013/14 Interim management report	<p><b>Capital contracts</b></p> <p>To facilitate continuous improvement in the delivery of capital projects, it is important to carry out a detailed formal appraisal of the project. Currently the Comhairle does not complete a formal evaluation of the lessons learnt. The appraisal should cover, for example, each contractor's performance in terms of standard of work, adequacy of supervision, adherence to programmes, attitudes to claims, relationship with employer and industrial relations. Consideration should also be given to potential control weaknesses at each stage. Similarly, where consultants have been engaged, their performance should also be subject to a post completion review.</p> <p><b>2015/16 Audit follow up</b></p> <p>No evidence of project appraisals or formal identification of lessons learned.</p>	<p>The requirement to undertake formal lessons learnt appraisals on capital projects has been included in all Section Managers Development Appraisals.</p> <p><b>Responsible Officer:</b></p> <p>Head of Assets and Infrastructure</p> <p><b>Completion Date:</b> March 2017</p>
Rating		
Grade 2		



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