

# Comhairle nan Eilean Siar

2016/17 Annual Audit Report



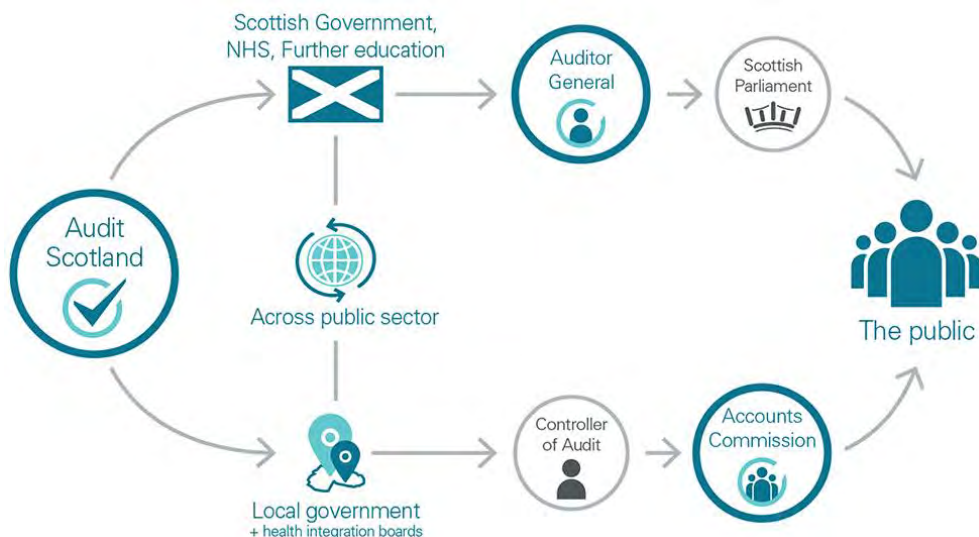
 AUDIT SCOTLAND

To Members of Comhairle nan Eilean Siar and the Controller of Audit  
September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement of the Comhairle.
- 2 Improvements are required to the processes for preparing the group accounts.

## Financial management

- 3 Financial management arrangements were robust although we have recommended that a review of the forecasting process should be undertaken to establish the factors affecting revenues or expenditures that have caused the actual outturn to be significantly better than forecast.
- 4 The Comhairle's financial controls operated satisfactorily during 2016/17, but these could be strengthened to include timely review of council tax reconciliations and confirmation of changes to suppliers' details.
- 5 As part of its 2016-18 budget strategy the Comhairle consulted widely on budget choices.

## Financial sustainability

- 6 As part of its forward Budget Strategy the Comhairle has used reserves to deliver a balanced budget across the two year period 2016-18.
- 7 The Comhairle has a good medium to long-term financial strategy. It has built up its reserves over the last four years and the level of usable reserves is significant for the size of council. It has a proven track record of delivering savings targets and has installed cross-party processes for agreeing budgets. However in common with many other councils, the Comhairle faces significant financial challenges over the coming years.

## Governance and transparency

- 8 The Comhairle has appropriate arrangements in place that support scrutiny of decisions made by the council and its standing committees.
- 9 Internal audit reviews identify the need to update / complete the Comhairle's IT Strategy and IT Disaster Recovery plan.
- 10 The Comhairle is open and transparent in the way that it conducts its business.

## Value for money

- 11 66% of the Comhairle's Key Performance Indicators (KPIs) against business plans and budgets were on-track at the end of 2016/17.

- 12** The Comhairle will publish the 2016/17 annual public performance report before the statutory deadline of 31 March 2018. Overall we concluded that the Comhairle's arrangements for publication are satisfactory.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Comhairle nan Eilean Siar.
2. The scope of the audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit Committee. This report comprises:
  - an audit of the annual report and accounts
  - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work for Comhairle nan Eilean Siar in 2016/17 have been:
  - an audit of the key controls operating within the main financial systems and review of governance arrangements
  - audit work covering the arrangements for securing Best Value relating to financial planning and financial management
  - an audit of the 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.
4. Comhairle nan Eilean Siar is responsible for preparing annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within Comhairle nan Eilean Siar to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual accounts and the identified risks or control weaknesses from our audit work. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#)
- 10.** It sets out specific recommendations, responsible officers and dates for implementation.
- 11.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 12.** 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).
- 13.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

**Unqualified audit opinions on the Comhairle's annual accounts.**

**Improvements are required to the processes for preparing the group accounts.**

### Unqualified audit opinions

**14.** The annual accounts for the year ended 31 March 2017 were approved by the Audit Committee on 25 September 2017. We reported, within our independent auditor's report on Comhairle nan Eilean Siar:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**15.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Submission of the Comhairle's annual accounts for audit

**16.** We received the unaudited annual accounts of the Comhairle on 19 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. The working papers provided with the unaudited annual accounts were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.

**17.** In 2016/17, for the first time, the Comhairle's group accounts included the financial results of Western Isles Integration Joint Board (WIIJB).

### Risk of material misstatement

**18.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the audit planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions from our work.

### Materiality

**19.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

The annual accounts are the principal means of the council accounting for the stewardship of its resources and its performance in the use of its resources.



**20.** Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and included in our Annual Audit Plan. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively. On receipt of the annual accounts, and following consideration of the results of our interim audit testing, we reviewed our original materiality calculations and revised them based on the updated information available. Our materiality values are summarised in [Exhibit 2](#).

## Exhibit 2

### Materiality values for Comhairle nan Eilean Siar

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£1.7 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 25% of overall materiality.	£0.4 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£85,000

Source: Audit Scotland

## How we evaluate misstatements

**21.** A number of misstatements were identified during the course of our audit. These were discussed with relevant officers, and two adjustments were made to the group accounts.

**22.** The gross expenditure and income on the face of the Group Comprehensive Income and Expenditure Statement was understated by £17million due to an incorrect consolidation method for joint ventures (including the IJB) and associates. The current year's share of operating results of associates and joint ventures was also understated by £0.5 million as the incorrect percentage had been used to consolidate the IJB. These errors were all corrected.

**23.** In assessing the total error of £17.5 million we recognised that this exceeded our performance materiality value of £0.4 million, however as we had reviewed the consolidation of all associate bodies and joint ventures, we are content that we have identified the entire error, have considered the impact on our planned audit procedures and decided that no further audit work is required.

**24.** There were no unadjusted errors individually or cumulatively in excess of our clearly trivial threshold.

## Significant findings

**25.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#) (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included).

### Exhibit 3

## Significant findings from the audit of Comhairle nan Eilean Siar accounts

Issue	Resolution
<p><b>Group accounts</b></p> <p>The consolidated entities in the group accounts are an associate and a joint venture. These should be consolidated on an equity basis but were fully consolidated on a line by line basis.</p>	<p>We reviewed the consolidation of all associate bodies and joint ventures.</p> <p>The error was corrected in the audited financial statements.</p> <p>We are content that we have identified the entire error, have considered the impact on our planned audit procedures and decided that no further audit work is required.</p>
<p><b>Payroll verification</b></p> <p>Our testing identified an isolated occurrence where backup documentation could not be provided for an individual receiving added years pension payments.</p>	<p>We carried out additional sample testing on similar cases.</p> <p>We are content that this was an isolated occurrence. Payment has been ongoing for 29 years. No further issues were discovered in our extended sample.</p> <p><b>Action Plan (Appendix 1, point 1)</b></p>

### Going concern

**26.** The financial statements of the Comhairle and its group have been prepared on the going concern basis. The Comhairle has tax raising powers and we are not aware of any significant change in government policy that might affect the continued provision of services. We concur with management's view that the going concern assumption remains appropriate.

### Other findings

**27.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

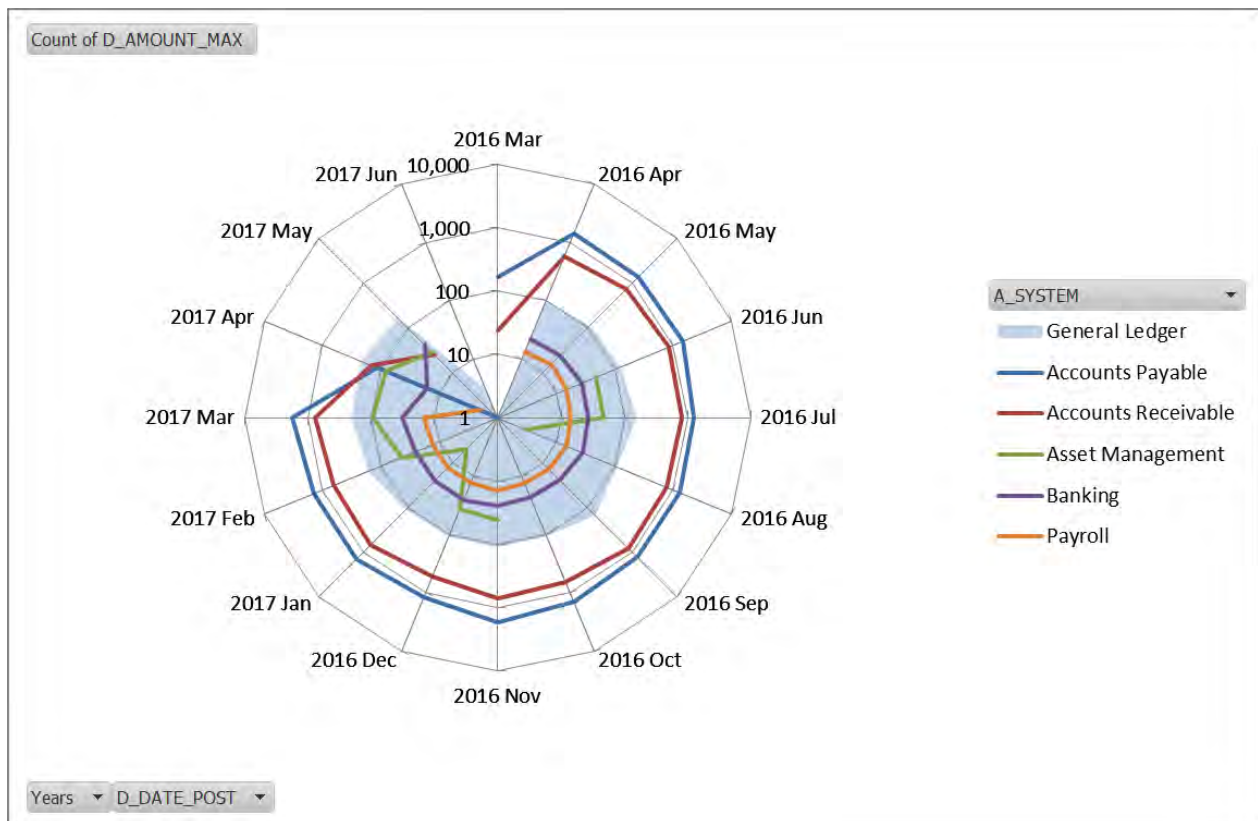
### Data Analytics

**28.** In 2016/17 we piloted the use of data analytics in the Comhairle as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as "the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an audit ....for the purpose of planning and performing the audit". Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

**29.** In Comhairle nan Eilean Siar we obtained and analysed every general ledger transaction processed in 2016/17: There were over 29,000 postings with an average value of £75,000, posted from 36 user accounts. We also analysed transactions posted immediately prior to and following the financial year.

## Exhibit 4

### Analysis of ledger postings



**30.** The focus of our data analytics audit work was on journal entries and feeder systems ([Exhibit 4](#)). The vast majority of these were from the purchase and sales ledgers, but there were nearly 2,000 manual journal entries. We identified the following patterns/ audit conclusions:

#### Fraud and management bias: Pattern of consistent activity

**31.** The frequency of transactions by system was consistent during the year, with the exception of asset management, where there were periods of high activity, associated with the budgeting and reporting cycle.

**32.** The frequency of transactions by person was consistent during the year, with a slight increase by senior accountants in September (six months into the year) and after the year end. This is explained by normal financial reporting activity.

**33.** Our detailed testing focussed on a higher risk group of journals based on value, timing, source and judgement. We found no issues with the nature and accuracy of these journal transactions.

#### Cut-off: Assurances over processes

**34.** Feeder system close-down (including purchase and sales ledgers) extended into April owing to the practice of operating the new year in parallel with the old for three weeks. Our cut-off testing showed transactions were posted in the correct years.

**35.** Manual journals continued as expected after the year end and these were largely complete at the end of May with only 3 manual journals posted in June 2017. Our analysis focussed on journals affecting the surplus.

## **Classification and completeness**

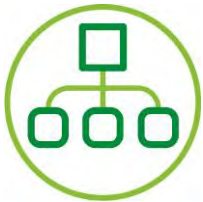
**36.** The mapping of the ledger via Trial Balance to the Balance Sheet was confirmed through 100% audit re-performance testing.

## **Objections**

**37.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Comhairle complied with the regulations and we did not obtain any objections to the annual accounts.

# Part 2

## Financial management



### Main judgements

**Financial management in 2016/17 was robust although it did not satisfactorily forecast and report the development of the final position shown in the audited financial statements.**

**The Comhairle's financial controls operated satisfactorily during 2016/17, but these could be strengthened to include timely review of council tax reconciliations and confirmation of changes to suppliers' details.**

**As part of its 2016-18 budget strategy the Comhairle consulted widely on budget choices.**

### Financial management in 2016/17

**38.** The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that good financial management is required to ensure spending is accurately forecast and monitored within the year against robust budgets.

**39.** In February 2016 the Comhairle approved a balanced 2016/17 revenue budget of £106 million, including using £1.5 million from the unallocated general fund reserve (and excluding planned use of earmarked reserves). £6.9 million of financial savings were required to achieve a balanced budget. This included £3.3 million of loan charges savings from reducing costs of servicing debt, debt rescheduling of £0.5 million and a reduction in contingency of £0.3 million. A further £0.2 million of savings related to specific service areas and the remaining savings arose from three specific streams; Workforce Plans (£1.6 million), Budget Choices (£0.7 million) and Corporate Savings (£0.3 million).

**40.** Savings options included details of how these would be achieved and what financial impact they would have. Options appeared robust and were clearly embedded within the budget setting process. Achievement of anticipated savings was reviewed by the Corporate Management Team (CMT) and reported quarterly in the revenue monitoring reports. A detailed review of savings was carried out by the CMT in the third quarter of 2016/17 which showed that the savings required for 2016/17 would be realised. The annual outturn on the general fund as reported in the financial statements was a surplus of £1.4 million.

**41.** An internal audit review of the Comhairle's arrangements for the achievement of savings put forward as part of the 2016/17 financial planning and budget process found no significant issues in the savings exercises and highlighted that the majority of savings through the three routes of Workforce Plans, Budget Choices and Corporate Savings were materialising.

**42.** The efficiency statement submitted to the Scottish Government details that the Comhairle has delivered £7.3 million of recurring efficiency savings for 2016/17.

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

## Budget monitoring

43. The Comhairle has established budget setting and monitoring arrangements in place. The Financial Regulations, Scheme of Delegation and annual budget timetable provide a framework for officers to follow. The Comhairle's overall financial performance is monitored by the CMT and the Policy and Resources Committee. Individual service financial performance is monitored by the service management teams and the relevant service committee. Accountability for any significant variances lies with each head of service.

44. Revenue and capital monitoring reports are prepared by each service quarterly. These reports compare forecast out-turn against the total revised budget (which includes carry forward of budgets earmarked for specific purposes) and provide explanations for all significant variances. Significant adjustments to the budget are recorded and reported to the relevant committee.

45. For Quarter 1 (end of June 2016), the Comhairle reported an anticipated year end underspend of £0.4 million on departmental controllable expenditure. This increased in the final 6 months of the year from an estimated underspend of £0.3 million at Quarter 3, to an outturn underspend of £1.7 million as outlined in [Exhibit 5](#).

### Exhibit 3

#### Departmental underspends 2016/17

Department	Initial budget (£m)	Total budget (£m) *	Forecast out-turn (£m)**			Outturn (£m) Overspend/ (underspend)
			Overspend/(underspend) Q1	Q2	Q3	
Education and Children's Services	35.4	37.2	-	-	(0.2)	(0.6)
Environment and Protective services	1.8	2.3	-	-	-	(0.2)
Sustainable Development	5.0	6.1	-	-	-	(0.1)
Transportation and Infrastructure	14.4	14.8	-	(0.1)	-	(0.4)
Integrated Joint Board	19.4	20.7	(0.4)	(0.3)	(0.1)	-
Policy and Resources	11.8	11.9	-	0.1	-	(0.4)
<b>Total</b>	<b>87.8</b>	<b>93.0</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(1.7)</b>

\*The difference to the initial budget is due to c/f of previous year budgets earmarked for specific purposes which are held centrally until required

\*\* Derived from comparing forecast outturn against Total budget

Source: CNES revenue outturn reports 2016/17

46. The internal management reporting demonstrates that it did not satisfactorily forecast and report the development of the final position shown in the audited financial statements, which rose from 0.3% of budget at Qtr. 3 to 1.8% at the end. The forecast outturn figures for the financial year should represent the Comhairle's best view at the point the forecast is compiled and cover the forecast for the full financial year. In discussion with officers we have recommended that a review of the forecasting process should be undertaken to establish the factors affecting

revenues or expenditures that have caused the actual results to be higher or lower than the forecast.

## Action Plan (Appendix 1, point 2)

### Budget consultation

**47.** As well as consulting with Community Planning Partners and Trade Unions the Comhairle holds public consultation meetings which anyone may attend. Comments, views or alternative budget proposals are welcomed either at the meetings, through the Comhairle's website, or in writing by email or by letter to the Director of Finance and Corporate Resources. Facebook sessions are also held with the public on budget consultation.

**48.** As part of the 2016-18 budget strategy the Comhairle undertook a significant workforce planning exercise, developed a comprehensive set of corporate efficiency proposals and consulted widely on budget choices. In January 2016 the Comhairle agreed to consult on twenty nine proposals (budget choices) which could realise savings of £1.4 million in 2016/17 and £0.7 million in 2017/18. Potential savings included:

- reduce Community Council Social Grants by 50% saving £20,000 in 2016/17
- review arrangements for residential care for children saving £350,000 in 2016/17
- reduce the street lighting budget saving £20,000 in 2016/17
- review the provision of Public Conveniences saving £65,000 (£10,000 in 2016/17 and £55,000 in 2017/18).

**49.** Details of the responses received to the consultation were provided to the Policy and Resources Committee in February 2016. The Committee agreed that six of the choices relate to functions delegated to the Integration Joint Board and should be referred to them for determination. All remaining proposals with the exception of reducing Community Council Social Grants were approved.

### Capital programme 2016/17

**50.** The 2013-18 Capital Programme was set in March 2013 and comprised £38 million of projects in progress carried forward from the 2008-13 Capital Programme together with £42.5 million of resources for new projects. Resources for the programme have risen since that time to a current level of £103 million due to additional capital grant.

**51.** 2016/17 is the fourth year of the five year programme. During the year the Comhairle delivered 71% of the approved capital programme of £23.8 million. Total capital expenditure in 2016/17 was £17 million, with £5.2 million slippage including the school capital works programme, Ardseileach replacement, care home improvement works and community grant schemes payable to third parties. Expenditure was financed through a combination of capital grants, revenue, capital funds and internal borrowing as detailed in Exhibit 12.

**52.** The majority of capital funding is via capital grant. In October 2016, a review was undertaken by the Verification and Compliance Team of the Scottish Government Internal Audit Directorate regarding funding that was made under the European Structural Funds 2007-2013 Programme. This review published on 1 March 2017 highlighted areas which it has deemed as non-compliant and the Comhairle has been advised that it will have to repay some £88,000 as a result of the errors identified. The request for repayment is disputed by the Comhairle.



## Financial capacity within the Council

**53.** The Section 95 officer is the Head of Finance and Corporate Resources. He is a member of the corporate management team and has direct access to the chief executive and members of the Comhairle. We concluded that the Section 95 officer has appropriate status within the Comhairle to fulfil his responsibilities.

**54.** With the recent Comhairle elections there have been a number of new members elected. It is important that they receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We have recently been involved in delivering a training event for members of the Audit and Scrutiny Committee.

## Internal controls

**55.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**56.** Our findings were included in our interim audit report that was presented to the Audit and Scrutiny Committee in July 2017. We concluded that the key controls were operating effectively, however we identified a small number of areas where the controls could be strengthened including timely review of council tax reconciliations and confirmation of changes to suppliers' details. We also reported the absence of a robust staff validation process. As a result of these control weaknesses we adapted our substantive audit approach for the financial statements to obtain the necessary assurances.

**57.** The Head of Internal Audit concluded in his Annual Report and Assurance Statement that reasonable assurance could be placed on the adequacy and effectiveness of the internal control systems, however a number of areas were highlighted, including:

- a full assessment is required of the Comhairle's piers and harbour facilities, for corrosion, repair identification and lifespan determination
- there is ongoing legal action in respect of the Comhairle's decision to award an operating contract for Lews Castle to Natural Retreats
- In November 2016 an adjudicator required the Comhairle to pay £309,000 withheld during the construction of the Western Isles Schools project. The Comhairle has raised proceedings in the Court of Session for recovery of these sums under a separate contractual provision.

## Prevention and detection of fraud

**58.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Comhairle's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.

**59.** Based on the evidence reviewed by us, we concluded that the Comhairle has adequate arrangements in place for the prevention and detection of fraud.

## National Fraud Initiative

**60.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different



financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**61.** The latest position on NFI investigations by the Comhairle is summarised in [Exhibit 4](#).

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#### Exhibit 4

##### National Fraud Initiative

**Total number of matches**



**1,368**

**Number recommended for investigation**



**234**

**Completed/closed investigations**



**181**

Source: NFI website

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**62.** The Comhairle recognises that the NFI is an important tool in allowing investigative resources to be targeted at risk areas. NFI progress and outcomes are reported regularly by Internal Audit to the Audit and Scrutiny Committee. The Comhairle is making adequate progress in following up the matches identified in the latest NFI exercise.

# Part 3

## Financial sustainability



### Main judgements

**As part of its forward Budget Strategy the Comhairle has used reserves to deliver a balanced budget across the two year period 2016-18.**

**The Comhairle has a good medium to long-term financial strategy. Savings required for the two year period 2018-20 are estimated at between £9.4 and £14.2m with a best estimate of £11.9m.**

**A Budget Board has been established to oversee the implementation of the Comhairle's Budget Strategy.**

**The level of usable reserves is significant for the size of council and it has a proven track record of delivering savings targets.**

### Financial position

**63.** The annual accounts show that the Comhairle has net assets of £79 million a decrease of £40 million from last year, mainly attributable to:

- the increase in the pension liability of £51 million due to a decrease in the discount factor applied to liabilities (reduced from 3.5% to 2.6%)
- an increase in property, plant and equipment valuation of £9 million split across a number of asset classification.

**64.** The Comhairle incurred positive net cash flows of £18 million from operating activities. There is a significant surplus in current assets over current liabilities of £28 million, a position that has decreased by £1 million since last year. This is primarily due to the Comhairle's current borrowing policy where they are using short term arrangements to take advantage of the low interest rates compared to long term borrowing.

### Financial sustainability

#### Reserves

**65.** One measure of the financial health of a local authority is the level of reserves held, reflecting the capacity for a council to respond to unexpected events, including short term funding issues. The level of usable reserves held by the Comhairle decreased from £25.0 million in 2015/16 to £23.8 million in 2016/17. The general fund reserve is the largest reserve (£23.2 million), with a proportion of this earmarked for specific purposes.

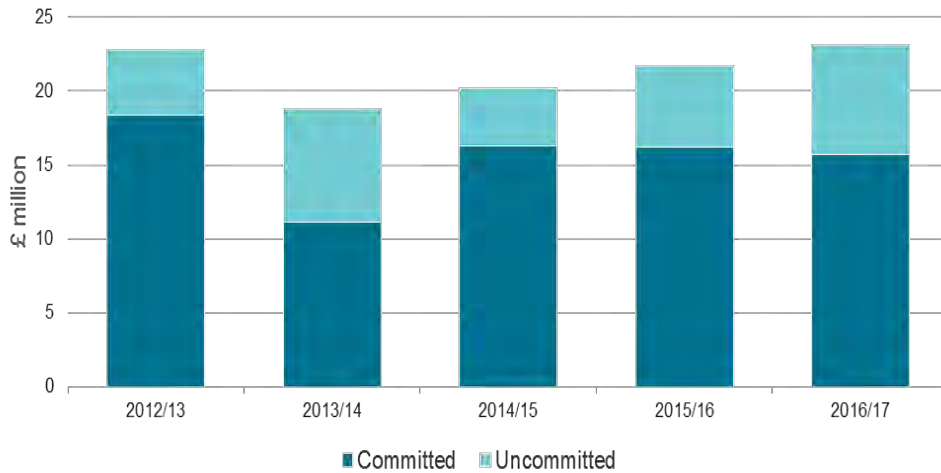
**66.** The Comhairle considers the level of its general fund reserve when setting the budget each year. The Comhairle has agreed a reserve strategy which requires a minimum unallocated general fund reserve of £3.5 million. At 31 March 2017, unallocated general fund reserves exceeded this strategy minimum at £7.4 million.

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

67. [Exhibit 5](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. The general fund reserve has increased over the last four years from £18.8 million in 2013/14 to £23.2 million in 2016/17.

### Exhibit 5

#### Analysis of general fund over last five years

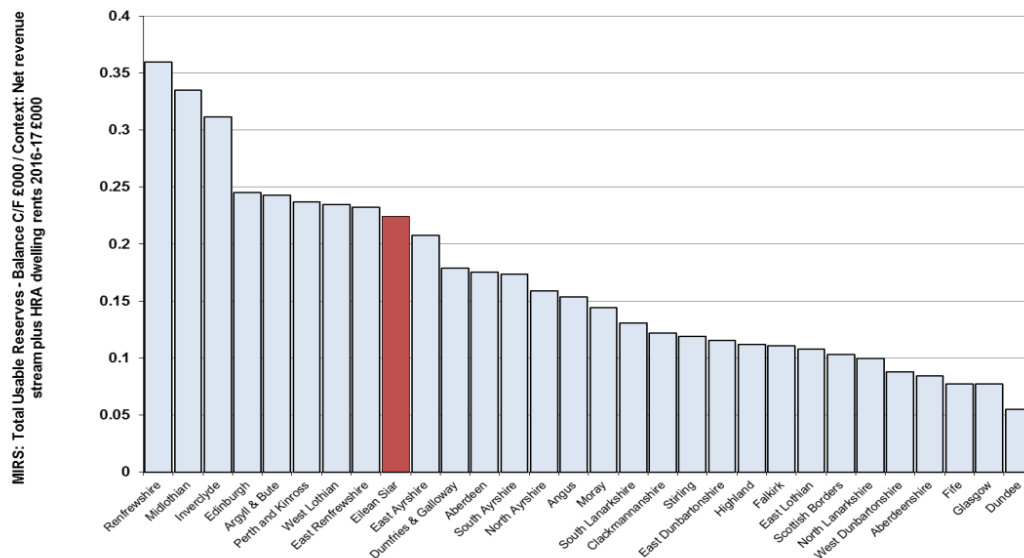


Source: CNES Accounts 2012/13 to 2016/17

68. The Comhairle has a relatively high level of usable reserves in comparison to its net revenue stream as outlined in [Exhibit 6](#).

### Exhibit 6

#### Usable reserves relative to the size of council's net revenue



Source: 2016/17 unaudited financial statements (excluding Shetland and Orkney Islands Councils)

69. The earmarked element of usable reserves increased slightly in the year to £12.3 million (excluding £3.4 million committed to the Budget Strategy). These

reserves include Education projects/VER's totalling £0.8 million, the Western Isles Schools Project Lifecycle Fund of £2.9 million and £2.2 million of underspends carried forward by Departments. A further 28 balances make up the remaining £6.4 million.

**70.** Earmarked reserves are a means of building up funds to meet known or predicted liabilities. As part of the 2016/17 budget setting exercise a review of balances was undertaken. This identified earmarked balances of £1.7 million that were no longer required. A further review undertaken as part of the 2017/18 budget setting exercise identified another £0.5 million.

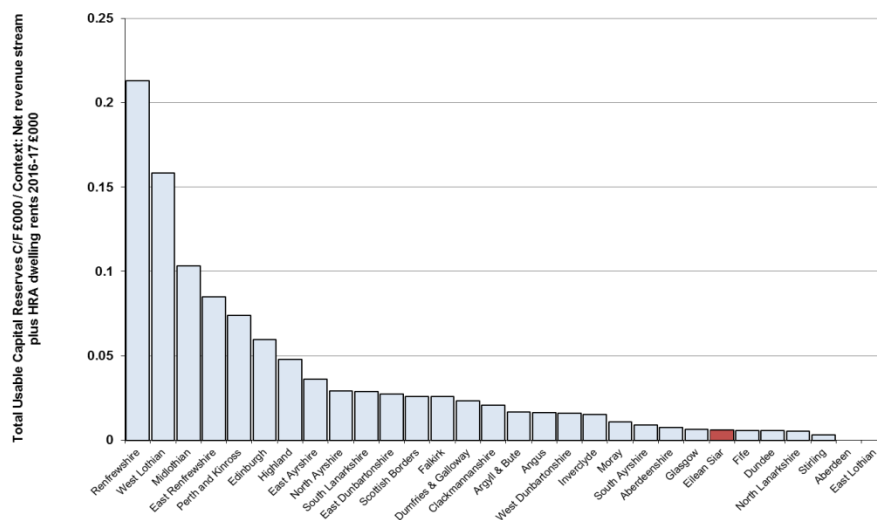
**71.** In October 2016, the Comhairle agreed in principle to fund the 2017/18 deficit from uncommitted balances. In February 2017 the Policy and Resources Committee agreed to use revenue reserves of £3.0 million to balance the 2017/18 budget.

**72.** It is important that members recognise that the proposed use of reserves to meet funding gaps is a short-term measure. It is however justifiable on the basis of the level of reserves currently held by the Comhairle and on the basis that savings options would be developed for consideration by the Comhairle as part of its forward budget strategy. This would consider departmental efficiencies, transformational service plans, service choices, and Human Resources options.

**73.** The Comhairle has a very low level of capital reserves ([Exhibit 7](#)) compared to most other councils which means that any funding of capital projects is not drawn from existing reserves, but is dependent either on government grants, funding from current revenue resource or new borrowing. We comment further on this at paragraph 76 below.

## Exhibit 7

### Capital reserves relative to the size of council's net revenue

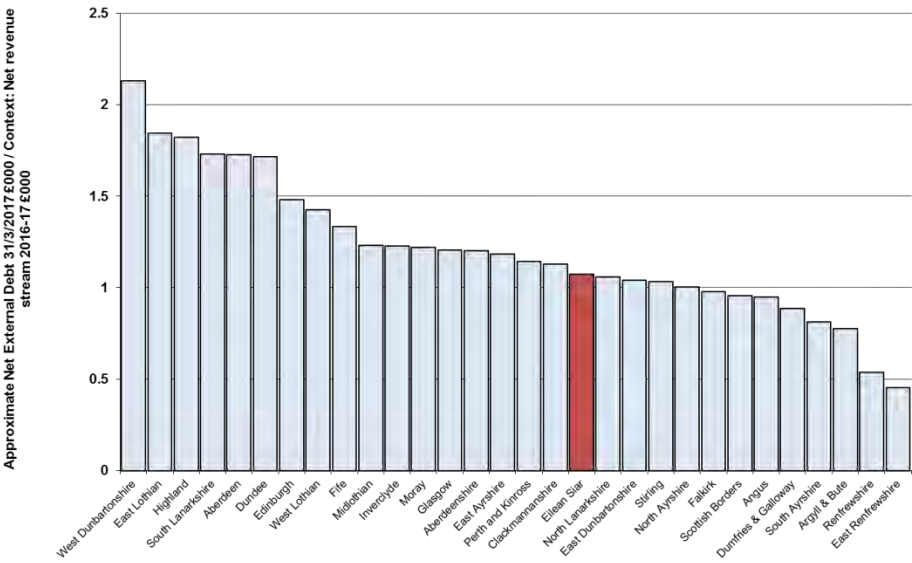


Source: unaudited financial statements 2016/17

## Treasury management

**74.** At 31 March 2017, net external debt was £114 million (borrowing and finance leases offset by cash and investments). This has decreased from last year (£116 million) by £2 million. The level of total borrowing is relatively lower than most other councils based on size ([Exhibit 8](#)).

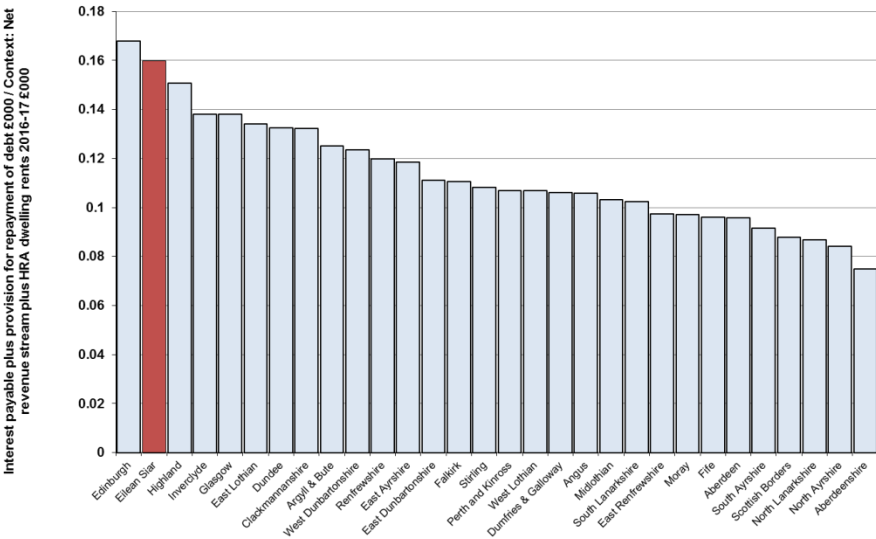
**Exhibit 8**  
**Net external debt relative to the size of council’s net revenue**



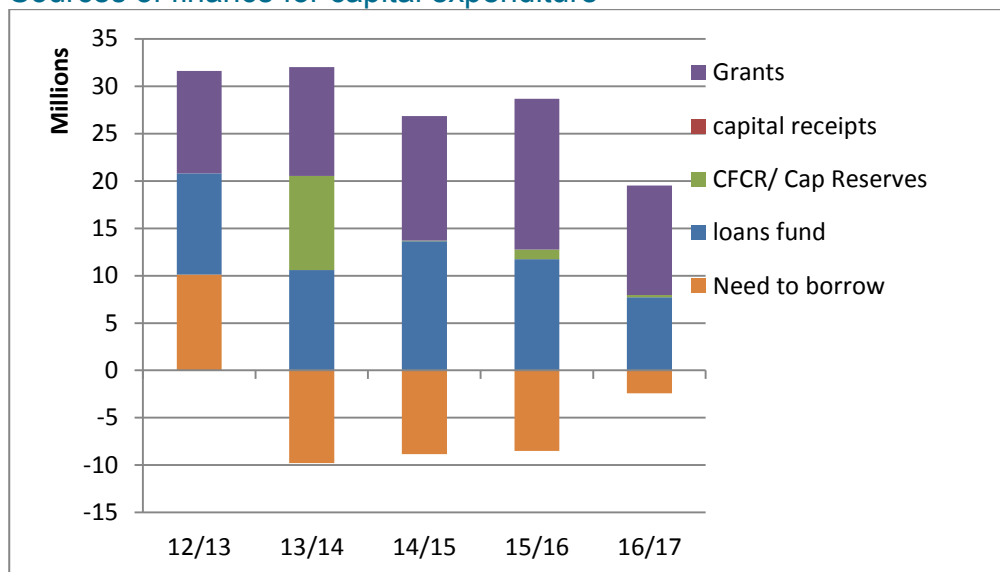
Source: 2016/17 Unaudited financial statements

75. The cost of servicing this debt however is relatively high at almost 17% of net revenue expenditure (Exhibit 11).

**Exhibit 11**  
**Debt repayments relative to the size of council’s net revenue**



76. A core element of the Comhairle’s policy on capital funding has been internal loans funds repayments from services and capital funded from current revenue (CFCR). Capital charges of £7.7 million for financing of capital investment in 2016/17 are down £4m (34%) on 2015-16 but still contribute over 40% of the capital expenditure funding. The Comhairle has not needed to increase its external borrowing in the last four years. The full analysis of capital financing is shown in Exhibit 12.

**Exhibit 12****Sources of finance for capital expenditure**

Source: CNES Accounts 2012/13 to 2016/17

**77.** The Comhairle's Investments decreased from £33 million at the beginning of the year to £32 million at the year end. The investments attracted an average rate of 0.45% during the year, a slight increase of 0.01% from 2015/16, and produced a total of £163,000 of income. In his Annual Treasury Management Report for 2016/17, the Director Of Finance and Corporate Resources reported that in view of the regulatory changes (which promote deposits of individuals and small and medium sized enterprises above those of public authorities), the Comhairle has reduced the sums invested with banks and building societies and has subsequently placed these investments with other local authorities.

**Financial planning**

**78.** In February 2016 the Comhairle agreed a forward Budget Strategy that sought to deliver a balanced budget across the two-year period 2016-18 using a combination of workforce planning, corporate efficiencies, budget choices and balances. The Comhairle also agreed that, provided the 2017/18 grant settlement is within the projected estimate, it would not be necessary to make further budget choices for 2017/18.

**79.** In February 2017, the Comhairle set its 2017/18 budget as planned. A reduction in funding of £3.8 million for 2017/18, together with the reduction in balances carried over from 2016/17 of £1.5 million and inflationary costs of £1.3 million, contributed to a £6.6 million budget gap for 2017/18. Agreed savings of £3.1 million together with a reduction in health and social care funding of £0.5 million leaves a residual gap of £3 million which, in line with the Comhairle's position, agreed in December 2016, was to be funded from reserves.

**80.** An assessment of the long term financial outlook from 2018-28 was submitted to the Policy and Resources Committee in February 2017 along with the budget papers and shows a range of potential scenarios for the Comhairle. The outlook is consistent with the requirements set out in [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014) and considers a range of scenarios and the associated savings required to present a balanced budget.

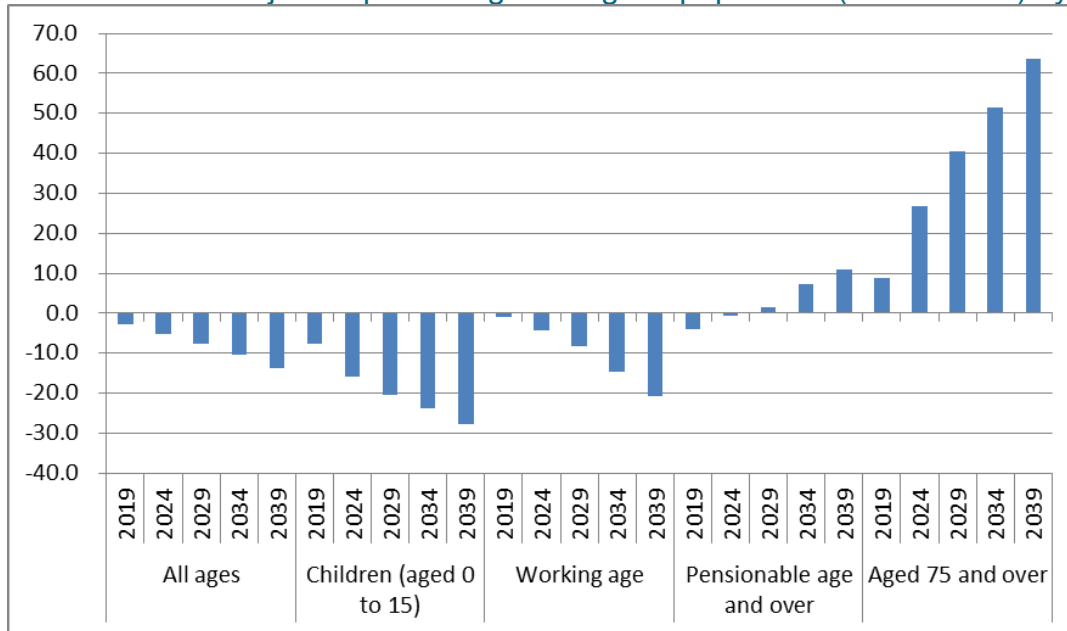
**81.** The key sensitivities within the outlook noted by the Director of Finance and Corporate Resources are the level of grant funding, which is dependent on the

policy direction of Scottish Government, and inflation, which may be heavily influenced by the exit of the UK from the European Union. Savings required for the two year period 2018-20 are estimated at between £9.4 and £14.2m with a best estimate of £11.9m.

**82.** Another significant risk faced by the Comhairle, and outlined in Exhibit 13, is the number of children and people of working age living in Western Isles over the next 20 years. This is expected to fall, causing an overall reduction in population.

**Exhibit 13**

**Western Isles: Projected percentage change in population (2014-based) by age**



Source: National Records of Scotland

**83.** In June 2017, the Comhairle agreed that a Budget Board be established to oversee the implementation of its Budget Strategy. The Board is chaired by the Chairman of the Policy and Resources Committee and representation from each ward and from the Comhairle’s two registered political groups, the Scottish National Party, and Uist and Barra Independent Groups. At its first meeting in July 2017, the Budget Board agreed a methodology for implementing each of the work streams. We will continue to monitor developments in this area in 2017/18.

**84.** A follow-up review by internal audit of the Comhairle’s long term financial planning identified that four out of the five main recommendations in the original report had been fully implemented. For the recommendation outstanding (revenue implications of the Capital Programme and the ongoing revenue costs of operational assets should be incorporated into future years revenue budgets to fully integrate the revenue and capital process) management have confirmed implementation by February 2018.

**85.** As part of our 2017/18 audit, we will consider the Comhairle’s response to the above recommendation to ensure that its long term financial planning includes a clear assessment of the affordability of capital investment plans and the impact on revenue budgets in both the short and long term.

**Overall opinion on financial sustainability**

**86.** The Comhairle has a good medium to long-term financial strategy. It has built up its reserves over the last four years and the level of usable reserves is significant for the size of council. It has a proven track record of delivering savings

targets and has installed cross-party processes for agreeing budgets. However, in common with many other councils, the Comhairle faces significant financial challenges over the coming years.



# Part 4

## Governance and transparency



### Main Judgements

**The Comhairle's new committee arrangements are generally appropriate and support good governance**

**Registers of Interest should be updated to reflect current staff and member appointments**

**Internal audit reviews identify the need to update/ complete the Comhairle's IT Strategy and IT Disaster Recovery plan.**

### Vision / strategic plan

**87.** The Comhairle's Corporate Strategy 2012-17 was approved in November 2012 and its strategic priorities centred around the seven Local Outcomes in the [Outer Hebrides Community Planning Partnership's \(OHCPP\) Single Outcome Agreement 2013-2023](#). These were: population; economy; education and training; health and wellbeing; communities; natural and cultural resources; and services. The Strategy now requires to be reviewed to reflect the policy priorities of this term of the Comhairle, and the requirements of the Community Empowerment (Scotland) Act 2015.

**88.** A new Corporate Strategy has been progressed alongside the Local Outcome Improvement Plan which included a public survey on priorities in the Western Isles. Three strategic priorities have been agreed by the OHCPP:

- The Outer Hebrides retains and attracts people to ensure a sustainable population
- The Outer Hebrides has sustainable economic growth and all our people have access to appropriate employment opportunities
- The islands offer attractive opportunities that improve the quality of life, wellbeing and health for all our people.

**89.** The outcomes of a members' seminar held in June 2017 will form the basis of a framework strategy document, drafted by the Chief Executive, in consultation with Corporate Management Team, for wider public consultation. It is anticipated that the finalised Comhairle's Corporate Strategy 2012-17 will be presented for approval at the December 2017 PRC.

### Transparency

**90.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Comhairle is taking decisions and how it is using resources such as money, people and assets.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

**91.** The evidence that demonstrates the Comhairle's commitment to transparency includes:

- Members of the public can attend meetings of the Comhairle and other committees and the agenda, papers and minutes of these committee meetings are readily available on the Comhairle's website. Audio from the Comhairle and committees is also streamed live via the Comhairle's website.
- The Comhairle's website allows the public to access a wide range of information including the register of members' interests, current consultations and how to make a complaint.

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

**92.** The Comhairle has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also there are established procedures for preventing and detecting bribery and corruption including an Anti-Fraud Strategy that incorporates Fraud Response Arrangements.

**93.** The Comhairle also updated its whistle-blowing procedures in 2016/17 following a review by Internal Audit which recommended that more needs to be done to make the policy more prominent within the Comhairle.

**94.** During 2016/17 we reviewed the registers of interest completed by members and officers and found that they met basic requirements. Members are required to complete a declaration of interests when they commence their role and then are prompted annually to update this if there is any change.

**95.** All office based staff are required to complete a declaration when employment commences, with all other employee groups given an option to complete a notice of interest at a later date. If an employee has no interests to declare the form must be returned indicating a nil response. The declaration requires the employee to keep the register updated by writing or emailing amendments to the Human Resources Section. This is outlined in the Employee Handbook.

**96.** Our review identified however that, although registers are in place it was unclear how these are maintained. In addition, there were several individuals on the register who were no longer employed by the Comhairle. We believe there is scope to update these registers to reflect current staff and member appointments.

## **Action Plan (Appendix 1, point 3)**

### **Governance arrangements**

**97.** The Comhairle is required to establish governance arrangements to ensure that its business is conducted in accordance with law and proper standards, that public money is safeguarded and that the adequacy and effectiveness of these arrangements is monitored.

**98.** The Comhairle's Scheme of Administration was updated and approved in March 2017. It sets out the committee structure that will be operating moving forward and outlines the terms of reference for each committee. The update resulted in the creation of two new committees - the Communities Committee and the Planning Board.

**99.** It is still early days for the arrangements following the May 2017 elections, however we have concluded that the Comhairle's new committee arrangements appear appropriate and support good governance.

## Management commentary, annual governance statement and remuneration report

**100.** The Code of Practice on LG Accounts requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**101.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

## Internal audit

**102.** Internal audit provides senior management and elected members with independent assurance on the Comhairle's overall risk management, internal control and corporate governance processes.

**103.** The internal audit function is carried out by an in house team. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**104.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work on purchase to pay – exchequer services and housing benefit and council tax reduction. We also considered internal audit report findings as part of our wider dimension work.

## ICT risks

**105.** In September 2017, internal audit conducted a follow up review to their January 2017 report relating to IT Hardware, Software and Portables. One of their January 2017 recommendations was that the IT Manager refreshes the Comhairle IT Strategy to reflect current legislation and guidance (the Comhairle's IT Strategy has not been updated since 2012). This has not yet been actioned.

**106.** Internal audit also recently followed up on a number of recommendations made in a Disaster Recovery report issued in November 2014. The 2014 report noted that whilst there is the basis for the development of adequate IT disaster recovery provision, further work required to be undertaken to take forward a number of key issues such as prioritisation of a corporate approach to system recovery. The report also highlighted that the Comhairle's IT Disaster Recovery plan requires to be completed in full, with suitable annual training/testing of the plan to be taken forward once all key issues have been dealt with in terms of systems infrastructure and reconfiguration.

**107.** The follow up review concluded that whilst many of the recommendations in the 2014 report had been addressed, the IT Unit Business Continuity Plan has still to be completed, together with a system prioritisation plan. In addition, the Head of IT and Customer Services has not yet addressed the incomplete infrastructure, systems and supporting protocols which are required as part of the disaster recovery plan.

## Action plan (Appendix 1, point 4)

## Integration of health and social care

**108.** The Western Isles Integration Joint Boards (WIIJB) became fully operational on 1 April 2016. The financial transactions of the WIIJB have been consolidated into the Comhairle's group accounts for the first time this year.

**109.** In December 2015, we published the first of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms have the scope to address barriers to providing the right care for people closer to home, however we recognised the significant challenges including complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. We will carry out a second audit in 2018 to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

## Self-directed support

**110.** In August 2017, Audit Scotland published its report [Self-directed support: 2017 progress report](#). The report highlights that since 2014 councils have been responsible for implementing Self-directed Support (SDS), which offers people more choices around their support and how it is managed. This is now largely provided by the new local health and social care integration authorities drawn from councils and the NHS. While many people have benefited from SDS, integration authorities still have a lot to do to provide this for everyone.

**111.** The Western Isles was one of five case study areas where Audit Scotland met with elected members, chief officers, chief social work officers and senior managers, front-line social work staff, commissioning and finance managers, providers and supported people and their carers.

**112.** The report highlighted that the number of people receiving direct payments is rising, with Western Isles having the second highest number of direct payments per 100,000 population at 303 in 2015/16. This may in part reflect the nature of rural and island communities but there are other factors at play too. Case study examples of positive outcomes from the process were apparent in the Western Isles. However, national research found that while most were happy with their final outcomes, some found the process of requesting support and accessing SDS frustrating and bureaucratic.

**113.** The report also identified that in the Western Isles, there is a relatively large proportion of older people in the population with older people looking after other older people. It is difficult to recruit younger carers, and also male carers, from these communities. This is not sustainable, and the Comhairle is trying to recruit younger people into the caring profession through joint work with Skills Development Scotland.

## Equalities

**114.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**115.** We reviewed the key Comhairle documents including the Equal Opportunities Statement and Policy, Equality Outcomes and Mainstreaming Report 2017 and Equality Monitoring Statistics 2015/16. Equality Outcomes 2017-21 are currently

being developed following public consultation. We have concluded that the Comhairle has met its statutory duty to report:

- progress made in mainstreaming equality within the Council
- progress made towards achieving equality outcomes published in 2013
- annual employee information and details of the progress made in gathering and using information to better meet the duty
- updated gender pay gap information.

**116.** The Comhairle conducted an Equal Pay Audit in accordance with the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 in March 2017. This highlighted areas where management have taken action contributing to equality in pay. There were a few areas highlighted for improvement including equalities training for managers to ensure they understand the reasons for pay gaps, gender stereotypes and the subtle workplace practices that can contribute to pay gaps.

**117.** We concluded, on the basis of evidence reviewed, that the Comhairle is proactive in ensuring that equality is mainstreamed.

# Part 5

## Value for money



### Main judgements

**66% of the Comhairle's Key Performance Indicators (KPIs) against business plans and budgets were on-track at the end of 2016/17**

**The Comhairle will publish the 2016/17 annual public performance report before the statutory deadline of 31 March 2018. Overall we concluded that the Comhairle's arrangements for publication are satisfactory**

### Best Value

**118.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for CNES is planned for later in the five year programme.

**119.** The Best Value audit work carried out this year focused on the Council's arrangements for demonstrating Best Value in financial planning and financial governance and resource management. The findings from this work are reported above. The effectiveness of the Comhairle's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Value for money is concerned with using resources effectively and continually improving services.

### Local scrutiny plan

**120.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Comhairle was finalised in May 2017. It was presented to the Comhairle on 21 June 2017. The LAN did not identify any new scrutiny risks which would require specific scrutiny work during 2017/18. The Comhairle will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

### Performance management

**121.** The Comhairle is committed to having a strong framework in place for monitoring and reporting performance. A Continuous Improvement Sub Committee of both Policy and Resources and Audit and Scrutiny Committees is in place. Its purpose is to consider the detail of the Comhairle's self-assessment and improvement agenda to inform the strategic and scrutiny roles of Policy and Resources and Audit and Scrutiny Committees respectively.

**122.** The Comhairle agreed in February 2015 to adopt the self-evaluation method 'How Good is our Council?' together with the Public Service Improvement Framework (PSIF). In November 2016, the Continuous Improvement Sub-Committee agreed that the outcomes of internal and external audits and inspections, together with the recommendations of PSIF self-assessments should be included in the Sub-Committee's Programme of Work.

**123.** The Continuous Improvement Sub-Committee also agreed at its November 2016 meeting that its programme of work would be recorded in Interplan (the Comhairle's Performance Management System) to help improve the challenge and scrutiny of tracked outcomes and ensure transparency.

## Overview of performance targets

**124.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**125.** The most recent [National Benchmarking Overview Report 2015/16](#) by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. This has been reviewed by the Comhairle to assess their overall performance and a 'Local Perspective' outlining results against target for each of the major service areas is available on the Comhairle's website.

**126.** The Comhairle also considers performance against business plans and budgets at each quarterly service committee meeting. Results are presented by each Head of Service. The 2016/17 out-turn figures are shown at [Exhibit 14](#).

### Exhibit 14

#### Service Business Plans 2016/17 – End of Year Progress Reports by Department

Service	KPIs	On track	Monitoring required	Off track
Chief Executive	49	38	5	6
Development	44	29	8	7
Education and Children's Services	74	40	7	27
Finance and Corporate Resources	39	27	8	4
Technical Services	22	16	2	4
<b>Total</b>	<b>228 (100%)</b>	<b>150 (66%)</b>	<b>30 (13%)</b>	<b>48 (21%)</b>

Source: Comhairle nan Eilean Siar,

**127.** Areas performing well included project management advice to service departments, FOI requests dealt with within the statutory timescale (20 days), existing and new businesses supported to achieve growth, percentage of eligible children registered for pre-school year of Early Learning and Childcare, number of Adult Literacy and Numeracy Learners, percentage of S5/6 pupils attaining A-C passes in Higher examinations, savings achieved through collaborative procurement, cost of collecting NDR per chargeable property, tonnes of recyclables recycled and diverted from landfill.

**128.** Areas where KPIs were off track include numbers of new affordable houses delivered through 2015-18 Strategic Local Programme, numbers of library visits, percentage of annual performance appraisals completed in Education and Children's Services, sundry debts collected in year, percentage spend of Allocated Capital Resources to building projects, and percentage spend of capital allocated to roads investment.



## Statutory performance indicators (SPIs)

**129.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**130.** For 2016/17 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

**131.** The Comhairle will publish the 2016/17 annual public performance report before the statutory deadline of 31 March 2018. Overall we concluded that the Comhairle's arrangements for publication are satisfactory.

## Following the public pound

**132.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**133.** Audit Scotland is currently carrying out a performance audit of Scottish councils' use of ALEOs. The report is due to be published in Spring 2018.

**134.** Management have reviewed the funding the Comhairle provides to external organisations and concluded that all existing funding arrangements do not meet the definition of an ALEO.

## National performance audit reports

**135.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Comhairle. These are outlined in [Appendix 3](#)

**136.** The Comhairle has processes in place to ensure that findings from national reports are presented to the Audit and Scrutiny Committee. This reporting includes an assessment of current arrangements against good practice examples and the identification and agreement of actions to ensure further improvements.



# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Para no.	Issue / risk	Recommendation	Agreed management action / timing
25	<p><b>1. Payroll verification</b></p> <p>Our sample testing identified an isolated occurrence where backup documentation could not be provided for an individual receiving added years pension payments.</p> <p><b>Risk</b> – payments are made to individuals to which they are not entitled.</p>	<p>Officers should ensure that documentary evidence is retained to ensure that payroll payments can be verified and in this single example action should be taken to validate the payments made.</p>	<p>Agreed</p> <p>Responsible Officer – Head of Procurement and Exchequer Services</p> <p>December 2017</p>
46	<p><b>2. Budget monitoring</b></p> <p>Revenue monitoring reports did not satisfactorily forecast and report the development of the final position shown in the audited financial statements.</p> <p><b>Risk:</b> The forecast outturn figures for the financial year do not represent the Comhairle's best view at the point the forecast is compiled and cover the forecast for the full financial year.</p>	<p>A review of the forecasting process should be undertaken to ensure the most accurate projection possible of the year-end position. For example, the Comhairle should ensure that all items of income and expenditure are included in revenue monitoring reports.</p>	<p>Agreed</p> <p>Responsible Officer – Head of Accountancy and Customer Services</p> <p>December 2017</p>
96	<p><b>3. Registers of interest</b></p> <p>We identified several individuals on the registers who were no longer employed by the Comhairle.</p> <p><b>Risk</b> – members/officers interests and those of their close family are not adequately disclosed to enable potential conflicts to be identified and managed.</p>	<p>There is scope to update the register to reflect current staff and member appointments.</p>	<p>Agreed</p> <p>Responsible Officer – Head of Human Resources</p> <p>December 2017</p>



Para no.	Issue / risk	Recommendation	Agreed management action / timing
107	<p data-bbox="320 394 453 423"><b>4. IT Risks</b></p> <p data-bbox="320 459 687 853">The IT Strategy requires an update to reflect current legislation and guidance. The IT Unit Business Continuity Plan is still to be completed, together with a system prioritisation plan. The incomplete infrastructure, systems and supporting protocols which are required as part of the disaster recovery plan have also not been addressed.</p> <p data-bbox="320 871 687 1084"><b>Risk</b> – inadequate and out of date documentation and business continuity / disaster recovery arrangements could lead to significant issues and/or data loss in the event of an unplanned outage.</p>	<p data-bbox="719 459 1018 577">The Strategy should be updated to reflect current legislation, guidance and priorities.</p> <p data-bbox="719 595 1018 745">Weaknesses in business continuity and disaster recovery procedures and documentation should be addressed.</p>	<p data-bbox="1090 459 1177 488">Agreed</p> <p data-bbox="1090 506 1370 595">Responsible Officer – Director of Finance and Corporate Resources</p> <p data-bbox="1090 613 1233 640">March 2018</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of significant management estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p><b>Conclusion</b> – No issues were identified that indicate management override of controls.</p>
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The Comhairle receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>Particular areas of concern include council tax, non domestic rates and income from sundry debtors.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> <li>• Walkthrough of controls over income transactions and significant grant income.</li> <li>• Review of National Fraud Initiative arrangements and results.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of income controls and transactions. Our work on National Fraud Initiative did not identify any issues.</p> <p><b>Conclusion</b> – No fraud issues were identified.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The Comhairle incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<ul style="list-style-type: none"> <li>• Audit work on the National Fraud Initiative matches.</li> <li>• Walk through of controls over social care payments.</li> <li>• Assessing the overarching controls in</li> </ul>	<p><b>Results</b> – We did not identify any significant issues in our testing of expenditure controls and transactions or our work on National Fraud Initiative matches, although we have asked officers to review one pension payment where supporting</p>

Audit risk	Assurance procedure	Results and conclusions
	grant schemes. <ul style="list-style-type: none"> <li>Detailed testing of expenditure and housing benefit transactions.</li> </ul>	documentation was not provided during the audit. <p><b>Conclusion</b> – No fraud issues were identified. See Appendix 1 – issue/risk 1.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer and actuary.</li> <li>Focused substantive testing of provisions focusing on the appropriateness of valuation.</li> </ul>	<p><b>Results</b> – We did not identify any issues from our work on the professional valuer and actuary. Our substantive testing of provisions found that they were appropriately valued.</p> <p><b>Conclusion</b> – No issues identified with the valuation of material account areas.</p>
<p><b>5 Highway network assets (HNA)</b></p> <p>HNA are to be recognised for the first time in the 2017/18 financial statements of councils. While this is not a risk to the 2016/17 financial statements, this is a new and complex area and there is a risk that the Comhairle does not have sound arrangements in place for adoption in 2017/18.</p>	<ul style="list-style-type: none"> <li>Assess the arrangements in place to obtain the required knowledge and expertise to implement the new requirements.</li> <li>Review and assess the measurement, existence and completeness of HNA records to ensure compliance with the Code of practice on highway network assets.</li> </ul>	<p><b>Results</b> – At its meeting in March, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of HNA into the financial reporting requirements for council's.</p> <p><b>Conclusion</b> – No requirement to recognise HNA in the accounts.</p>
<p><b>6 Group accounting</b></p> <p>For 2016/17, the Comhairle will be required to consolidate the Western Isles Integration Joint Board into its group for the first time. The complexity of this consolidation leads to a risk over the accuracy and completeness of the group accounts.</p>	<ul style="list-style-type: none"> <li>Review the group boundary assessment undertaken by the Comhairle.</li> <li>Detailed coverage during the financial statements audit in accordance with ISA 600.</li> </ul>	<p><b>Results</b> – We identified the group components were incorrectly fully consolidated into the group accounts. Given the consolidated entities are an associate and a joint venture; these should be consolidated on an equity basis. Assurances were obtained from component auditors in accordance with our planned audit approach.</p> <p><b>Conclusion</b> – The audited accounts now use the correct method of consolidation.</p>
<p><b>7 Revised financial statements formats</b></p> <p>From 2016/17, the Code requires authorities to present their service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services.</p>	<ul style="list-style-type: none"> <li>Review work done on mapping the audited 2015/16 CIES to audited prior year disclosures.</li> </ul>	<p><b>Results</b> – Our audit work on the restructuring of the CIES confirmed that the new disclosure was complete and accurate and that the categorisation was consistent with internal reporting.</p> <p><b>Conclusion</b> – No issues</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that comparative 2015/16 data may not be presented correctly.</p>		<p>identified with the restructuring of the CIES except for inconsistency across Scottish Authorities. We think there is further scope to review implementation across Scotland during 2017/18.</p>
<p><b>8 Loans Fund Accounting</b></p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the Comhairle do not have arrangements in place to comply with the new accounting practices.</p>	<ul style="list-style-type: none"> <li>• Review the arrangements in place to comply with the new loans fund accounting requirements.</li> <li>• Detailed audit testing of loans fund transactions within the financial statements.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues in our testing of loans fund arrangements and transactions.</p> <p><b>Conclusion</b> – No issues were identified from our audit work.</p>
<p><b>9 New NDR system</b></p> <p>A new IT system for Non Domestic Rates went live in January 2017. The system is provided by Capita and will also be used for council tax, housing benefits, council tax reduction and housing benefit overpayment recovery in 2017/18. There is a risk that the data migration to the new system is not carried out and tested accurately.</p>	<ul style="list-style-type: none"> <li>• Review of planning and testing documentation produced and maintained by the Comhairle.</li> <li>• Testing of the data migrated to the new system for assurance over accuracy and completion.</li> <li>• Walkthrough and testing of the controls of the new system.</li> <li>• Substantive testing of the year end balances from the new system.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of the NDR system and year end balances.</p> <p><b>Conclusion</b> – No issues were identified from our audit work.</p>
<p><b>10 Payroll validation</b></p> <p>Scott Moncrieff highlighted in their 2015/16 Annual Audit Report that 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>Our initial systems testing has highlighted that there is no formal control in place to regularly validate payroll standing data. There remains a risk therefore that further overpayments could be made.</p>	<ul style="list-style-type: none"> <li>• Detailed walkthrough and testing of existing payroll controls.</li> <li>• Detailed audit work on validation of payroll standing data to confirm existence.</li> <li>• Substantive testing on staff costs as part of financial statements audit.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of existing payroll controls and substantive testing of staff costs. However, we did note a governance issue in retention of source documentation for employees receiving added years pension payments.</p> <p><b>Conclusion</b> – No issues were identified from our audit work that could have a significant impact on the financial statements.</p>

Audit risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>11 Financial planning</b></p> <p>In February 2016 the Comhairle agreed a forward Budget Strategy that sought to enable the Comhairle to deliver a balanced budget across the two year period 2016-18 using a combination of workforce planning, corporate efficiencies, budget choices and balances.</p> <p>An assessment of the long term financial outlook from 2018-28 shows savings required for the two year period 2018-20 are estimated at between £9.4m and £14.2m with a best estimate of £11.9m.</p> <p>Financial challenges are unlikely to reduce and there is a risk that budget gaps will not be addressed.</p>	<ul style="list-style-type: none"> <li>• Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</li> <li>• Review of the council's progress in achieving its planned savings.</li> </ul>	<p><b>Results/ Conclusion</b> - The Comhairle has a good medium to long-term financial strategy. It has a proven track record of delivering savings targets and has installed cross-party processes for agreeing budgets.</p> <p>As part of our 2017/18 audit, we will ensure that the Comhairle's long term financial planning includes a clear assessment of the affordability of capital investment plans and the impact on revenue budgets in both the short and long term.</p>
<p><b>12 Financial management</b></p> <p>The Comhairle approved a budget for 16/17 that included agreed savings of £6.2 million. At 30 September 2016, the forecast outturn was a net underspend of £0.338 million, arising mainly from Comhairle services delegated to the IJB.</p> <p>There is a risk that the Comhairle fail to make the required level of savings and that any under/over spend on IJB related services impact on the Comhairle's ability to achieve financial balance.</p>	<ul style="list-style-type: none"> <li>• Review financial monitoring reports and the financial position.</li> <li>• Undertake specific audit work on financial governance and resource management.</li> <li>• Consider the findings from internal audit work on financial savings.</li> </ul>	<p><b>Results</b> – An internal audit review of the Comhairle's arrangements for the achievement of savings put forward as part of the 2016/17 financial planning and budget process found no significant issues in the savings exercises and highlighted that the majority of savings through the three routes of Workforce Plans, Budget Choices and Corporate Savings were largely materialising.</p> <p><b>Conclusion</b> – Financial management in 2016/17 was robust.</p>

# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update



# Comhairle nan Eilean Siar

## 2016/17 Annual Audit Report

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