

Comhairle nan Eilean Siar

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Comhairle nan Eilean Siar and the Controller of Audit
24 September 2018

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

2017/18 annual accounts

- 1 Our audit opinions were all unqualified
- 2 There is a significant adjustment in the Comhairle's liabilities and pension reserve position (£4 million), which has been adjusted in the audited accounts

Financial management and Financial sustainability

- 3 In 2017/18 the budget was £106 million, and this included the use of uncommitted reserves (£3 million) and savings (£4 million). Financial management is effective, with services delivering within their budgets and centrally-held budgets underspending
- 4 The immediate financial position is challenging with service redesign plans and reserves being used to bridge the financial gaps for the next three years. The Comhairle has a five-year financial plan and ten-year financial outlook and service redesign plans to cover the next four years. Key actions and milestones have been developed by the CMT for member approval during October 2018.

Governance and value for money

- 5 Workforce strategies and arrangements exist but detailed plans are not yet in place and the Comhairle faces significant recruitment challenges
- 6 Equality arrangements are established and consider the needs of individuals, but the gender pay gap is substantial at 13.7% (decreasing from 16.4% the previous year).
- 7 Performance is regularly reported, but an increasing number of KPIs are off track.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Comhairle nan Eilean Siar and its group (the Comhairle).
2. The scope of the audit was set out in our Annual Audit Plan presented to the 27 February 2018 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - an audit of the Comhairle and its group 2017/18 annual accounts including the issue of independent auditor's reports setting out our opinions
 - a review the Comhairle's key financial systems
 - audit work covering the Comhairle's arrangements for securing Best Value relating to financial management, financial sustainability and workforce planning

- consideration of the four audit dimensions.

4. The Comhairle has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. The Comhairle is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Comhairle's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Comhairle's best value arrangements and in doing this we aim to support improvement and accountability.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £194,550 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Comhairle nan Eilean Siar by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Comhairle promote improved standards of governance, better management and decision making and more effective use of resources.

13. This report is addressed to both the Comhairle and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

Our audit opinions were all unqualified.

There is a significant adjustment in the Comhairle's liabilities and pension reserve position (£4 million) due to asset returns estimated by the actuary for the final part of the year being significantly lower than actual returns. This has been adjusted in the audited accounts.

We used data analytics techniques for the second year in the audit of Comhairle nan Eilean Siar.

Audit opinions on the annual accounts

15. The annual accounts for the Comhairle and its group for the year ended 31 March 2018 were approved by the Audit and Scrutiny Committee on 24 September 2018.

16. In our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

17. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

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

Submission of the accounts for audit

18. We received the unaudited annual accounts on 18 June 2017 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

19. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts ran smoothly.

Risks of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the 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 and the wider audit dimension risks identified.

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

22. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£1.7 million
Performance materiality	£0.7 million
Reporting threshold	£75,000

Source: Audit Scotland, Annual Audit Plan 2017/18

Significant findings from the audit in accordance with ISA 260


23. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

24. The findings include our views about significant qualitative aspects of the Comhairle's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Pension fund valuation</p> <p>The Comhairle accounts for its share of Highland Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary (Hymans Robertson). The actuary produced the IAS 19 report using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund assets reported in the Comhairle's balance sheet being understated by £4.1 million.</p>	<p>This issue occurred across the local government sector. The accounts have been adjusted to reflect the Comhairle's share of the pension fund assets based on the latest valuation at 31 March 2018. This has the impact of reducing the pension fund liability and increasing the pension reserve by £4.1 million (the effect on other bodies in the Comhairle's Group was not significant).</p> <p>The audited financial statements include the adjusted values. The pension fund liability is £48.368 million on the balance sheet.</p>
<p>2. An Lanntair investment</p> <p>In 2005, the Comhairle invested £0.423 million in a building which cost over £4 million for a 20% pro indiviso share of the property. The investment was not made for the purposes of making a return, but for economic development. The investment is "depreciated" over 30 years in line with other buildings and this is how it has been treated since the beginning.</p> <p>We believe that this treatment is incorrect as the Code identifies that if a property is held for development purposes then it should be classified as Property, Plant and Equipment. If it is an investment property, then cost cannot be used as a valuation basis.</p> <p>It is currently carried at £0.257 million which is not a material value. However, as this is historical depreciated cost, it may be inaccurate.</p>	<p>We recommend that the Comhairle review the accounting treatment in 2018/19 to ensure the value is correctly recorded in the accounts.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>

Source: Audit Scotland

How we evaluate misstatements

25. Total errors exceeded our overall performance materiality of £0.7 million. We consider that we have identified in full the adjustments to reflect the change in pensions valuation. The other misstatements did not breach our performance materiality. We have concluded that the errors are contained and do not indicate further systematic error within account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.

26. There are no unadjusted misstatements identified exceeding our reporting threshold. It is our responsibility to request that all misstatements are corrected although the financial decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for minor misstatements as the amount is not considered material in the context of the financial statements.

Follow up of prior year recommendations

27. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

28. Four recommendations were made in the 2016/17 Annual Audit Report. One agreed action from 2016/17 relating to payroll was raised again in our management report due to the significant number of overpayments made during 2017/18. A further agreed action on employee registers of interest has not been implemented and has been brought forward in 2017/18. Progress has been made on the other two recommendations covering budget monitoring and ICT risks, however these have not been fully addressed.

29. These actions have therefore been revised, and revised responses and timescales have been agreed with management as set out in [Appendix 1](#).

Data analytics

30. In 2017/18 we made use of data analytics techniques as part of our audit approach.

31. Reperformance of the trial balance/ accounts classification. We obtained and analysed every general ledger transaction processed in 2017/18: The collected data was used to reperform the trial balance and confirm that the accounts agree to the ledger.

32. Analysis of ledger processing. In general, the Comhairle's financial processing performance was consistent with its size and complexity. We did not identify any specific risk/issues with the Comhairle's processing performance. There were over 28,000 transactions with around 2,300 posted directly as journals (8%). However, feeder systems (especially banking, which includes funding grant receipts) make up over 95% of the postings by value.

33. Risk tagging of individual transactions. We used a risk-tagging model to review all ledger transactions. The model incorporated factors such as value, timing and nature We investigated high scoring transactions. The results of this testing were satisfactory, and we did not identify evidence of fraud or significant management bias.

Other findings

34. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

35. 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. There were no objections to the accounts.

Part 2

Financial management



Main judgements

In 2017/18 the budget was £106 million, and this included the use of reserves (£3 million) and savings (£4 million). Financial management is effective, with services delivering within their budgets and centrally-held budgets underspending

The financial outturn is clearly described in the management commentary

The financial position is relatively strong over the medium / long term, but this depends on addressing short term funding gaps

The Comhairle's budget was £106 million and this included the use of reserves (£3 million) and savings (£4 million)

36. In February 2017 the Comhairle approved a budget of £106 million for 2017/18 with a planned deficit for the year of £3 million which was to be funded from reserves..

37. The 2017/18 settlement from the Scottish Government included a £4.2 million (4.4%) reduction in revenue support grant. This was offset by additional income from Council Tax reform and a 3% increase in Council Tax leaving a reduction of £3.8 million, to be met by other means in the Comhairle's budget. When added to the underlying deficit carried over from 2016/17 of £1.5 million (which was funded from balances and inflationary costs of £1.3 million, this totalled a £6.6 million budget gap. The Comhairle had already identified and agreed savings of £3.1 million and a reduction in health and social care funding of £0.5 million. The residual gap of £3.0 million, in line with the Comhairle's position agreed in December 2016, was to be funded from balances.

The financial outturn is clearly described in the management commentary

38. The original and revised budgets and outturn are clearly shown in the management commentary in the accounts and the reported position agrees to the Movement in Reserves Statement

39. Through 2017/18 the total budget increased to £108 million with a planned deficit of £3.3 million, but the Comhairle achieved an underspend against this budget of £1.7 million, meaning that only £1.6 million was drawn from reserves rather than the planned £3 million.

Financial management is effective, with services delivering within their budgets and centrally-held budgets underspending

40. The Comhairle has established budget setting and monitoring arrangements in place. 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.

41. 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.

42. The Comhairle established a Budget Board in June 2017, comprising Councillors from all Wards and Parties, to oversee the implementation of its Forward Budget Strategy, with a clear remit and expectation of engagement with communities.

43. The underspend of £1.7 million in 2017/18 comprises mainly of central/non-departmental costs. The main variances were:

- contingencies and other central resources of £1.1 million remained unspent at the end of the year.
- loans fund savings of £0.6 million.
- departmental expenditure reported a very small overall underspend,

44. Within departmental expenditure totals there were underspends in Health and Social Care (£0.5 million) and Finance and Corporate Resources (£0.2 million). These were offset by overspends in Technical Services (£0.6 million) and Education and Children's Services.

Health and social care services underspending arose through recognition of historic care income and staff vacancies

45. The Health and Social Care underspend arose as a result of billing in 2017/18 for backlog of residential care charges which relate to the period prior to the establishment of the Integration Joint Board (£1 million less a provision of £0.5 million) – see point 5 in [Appendix 2](#). The Technical Services overspend arose as a result of the impact of severe winter weather conditions on the Winter Maintenance Budget.

46. Comhairle Services which are funded by the Integration Joint Board (IJB) were £3.1 million under budget. These funds are held as IJB reserves. Of the £3.1 million, £2.3 million related to in year underspends in services (see [Exhibit 4](#)) and £1.3 million to a transfer of resources from NHS Eilean Siar to be held for IJB services. This was offset by a transfer of £0.5 million from the Comhairle to the NHS to fund an in-year overspend on NHS provided IJB services.

Exhibit 4

Summary of significant underspends against budget for services reporting to IJB

Area	Underspend	Reason for variance
Residential Care	£1.3m	Residential Care Services were underspent by £0.8 million and the Independent Care Homes by £0.5 million. These underspends were largely due to actual income being significantly higher than had been previously forecast, due to the financial assessment team reducing the number of outstanding assessments and

Area	Underspend	Reason for variance
		these assessments generating higher charges than had been assumed previously.
Home Care	£0.5m	The underspend was due to vacancies, lower mileage and savings associated with the timing of implementing contracted workforce re-design and reablement teams.
Adult Care	£0.4m	The underspend arose due to vacancies in Adult Day Care, and the late or non-commencement of several budgeted transition and complex care packages.

Source: Comhairle nan Eilean Siar revenue monitoring reports

The year-end general fund surplus of £1.6 million developed through the year and was reported in financial monitoring reports

47. As at the end of the third quarter of 2017/18 (December 2107), the forecast outturn showed a net underspend of £0.8 million against the original budget (£0.2 million). At this point, Comhairle services delegated to the IJB were forecasting an underspend of nearly £1 million of which the majority related to the Care at Home Service, Comhairle Care Homes and Adult Care and Support Packages. The outturn for IJB services was an underspend of £3.1 million, contributing to the larger outturn surplus. We commented on issues with the accuracy of outturn forecasts in 2016/17 and some of these issues have been resolved, but the accuracy of year end forecasting should be reviewed. The outturn in IJB services, was offset by overspends in Winter Maintenance and Education, Sport and Children's Services.

Efficiency savings plans were clear and achieved

48. As set out above, in February 2017 the Comhairle approved a revenue budget which included savings of £3.1 million already identified and agreed as part of the Budget Strategy for 2016-18. The 2017/18 savings comprised £1.0 million in loan charges together with savings from three specific streams; Workforce Plans (£0.8 million), Budget Choices (£0.8 million) and Corporate Savings (£0.5 million).

49. 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.

50. The Efficiency Statement submitted to the Scottish Government details that the Comhairle achieved the savings set out in its 2016-18 Budget Strategy and delivered a total of £3.9 million of recurring efficiency savings for 2017/18.

The financial position is relatively strong over the medium / long term, but this depends on addressing the short-term funding gaps through service redesign

51. Although the Comhairle drew on its revenue reserves in 2017/18 by £1.6 million (representing 2% of revenue), it has achieved an increase in the three years previous, so has a recent history of achieving surpluses.

52. The total general fund balance includes unearmarked reserve of £8.3 million which provides cover for the current level of deficit for a number of years and the

extent of investments/ cash held (£39 million) exceeds total usable reserves comfortably meaning that further borrowing is not required to realise the reserves position. The borrowing position overall, compared to the Comhairle’s revenue, is relatively low at about 1 times annual revenue as illustrated in Exhibit 5. The scale of the immediate financial gap and the need for savings through an existing transformation/ service redesign plan is an area of immediate concern and we describe this in section 3 of this report. The financial position could quickly deteriorate if transformation is not achieved during 2018/19.

This is the last year of the five-year capital programme

53. The Comhairle’s 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 £43 million of resources for new projects. The programme increased to £105 million due to additional capital grant during the period of the plan. 2017/18 was the final year of the five-year programme.

54. During 2017/18 the Comhairle spent £11 million on capital projects including school capital works, care home improvement, regeneration capital grants and South Ford flood protection.

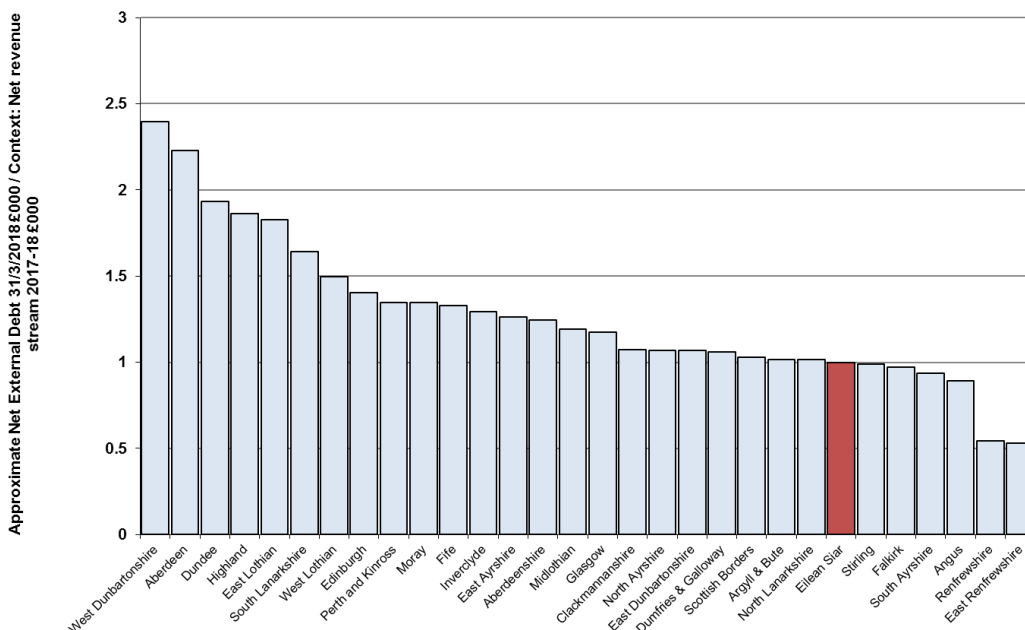
55. At 31 March 2018, the £14 million of projects in progress or committed had their budgets carried forward to the 2018-23 Programme. In December 2017 the Comhairle approved the main elements of the 2018-23 Capital Programme totalling £43 million.

Long term borrowing is relatively low and internal loans repayments form an important funding source for capital projects

56. At 31 March 2018, net external debt was £104 million (borrowing and finance leases offset by cash and investments). This has decreased from last year (£114 million) by £10 million. The level of total borrowing is relatively lower than most other councils based on size (Exhibit 5).

Exhibit 5

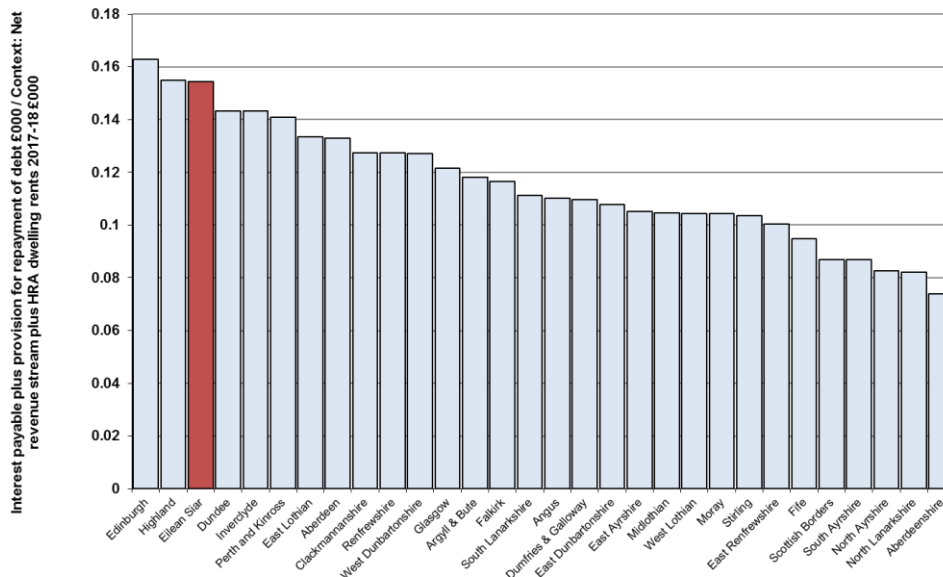
Net external debt relative to the size of council’s net revenue



57. The cost of servicing this debt however is relatively high at almost 16% of net revenue expenditure (Exhibit 6).

Exhibit 6

Debt repayments relative to the size of council's net revenue

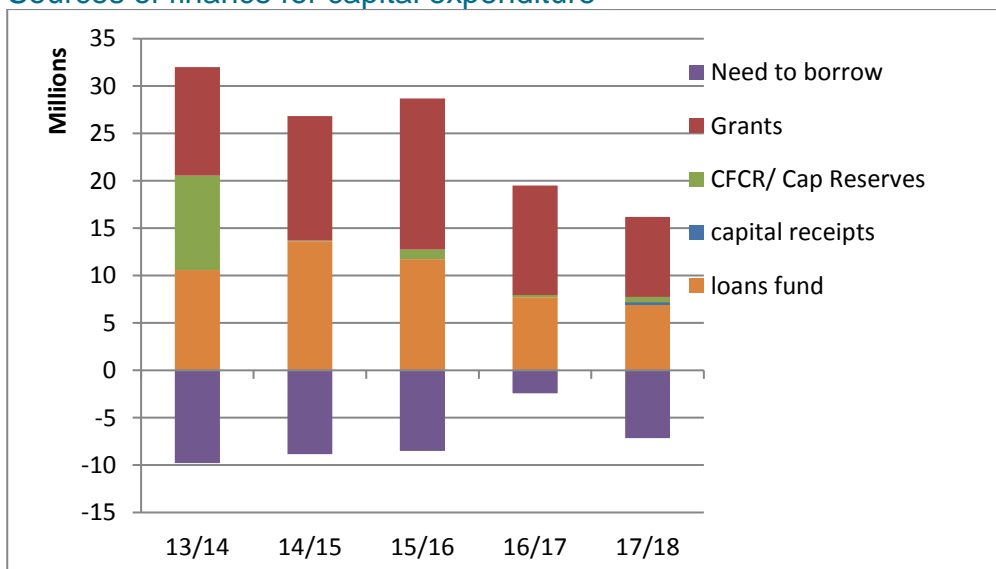


Source: 2017/18 Unaudited financial statements

58. 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 £6.97 million for financing of capital investment in 2017/18 are down £0.8m (10%) on 2016/17 but still contribute to over 40% of the capital expenditure funding. The Comhairle has not needed to increase its external borrowing in the last five years. The full analysis of capital financing is shown in Exhibit 7.

Exhibit 7

Sources of finance for capital expenditure



Systems of internal control are effective overall but with areas for improvement in payroll

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

60. Our findings were included in a management report that was presented to the Audit and Scrutiny Committee in May 2018. We concluded that in general, appropriate and effective arrangements were in place. Areas where existing controls could be improved were included in the action plan which we will follow up as part of our 2018/19 audit.

61. As part of our 2017/18 payroll systems review we undertook specific audit work to review the controls in place to prevent payroll overpayments. We reported a number of issues as a result of this work including:

- the payroll department do not regularly undertake a validation exercise to verify the existence of employees on the payroll system
- internal audit highlighted in their April 2018 payroll review that starter and leaver notifications were not always being provided to the central payroll team by departments in a timely manner. This has resulted in necessary changes not being made at the appropriate time resulting in underpayments and overpayments to current or ex-employees. Our own testing confirmed this issue.

Part 3

Financial sustainability



Main judgements

The immediate financial position is challenging with service redesign plans and reserves being used to bridge the financial gaps of £4.4 million, £4.6 million and £2.6 million for the next three years

The Comhairle has a five-year financial plan and ten-year financial outlook

Service redesign plans are significant and cover the next four years. Key actions and milestones have been developed by the CMT for member approval during October 2018

Reserves will be depleted during the next four years, based on financial plans

The immediate financial position is challenging with service redesign plans and reserves being used to bridge the financial gap

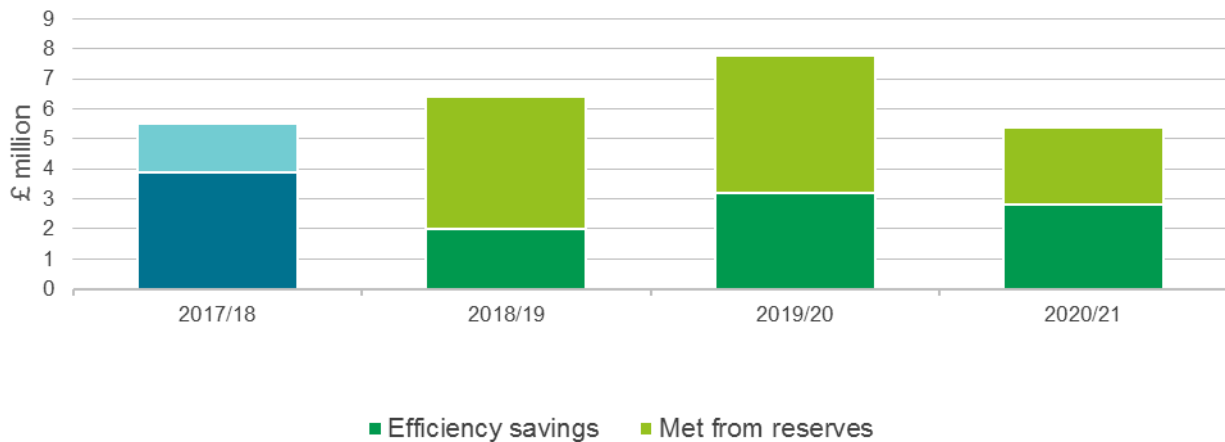
62. In February 2018, the Comhairle set its 2018/19 budget, based on the Scottish Government Settlement, the Comhairle's forecast deficit for 2018/19 will be £6.3 million, but this will be offset by loan charge savings of £1.2 million and 1% departmental efficiency savings of £0.7 million to give a residual, recurring deficit of £4.4 million. Target savings from Service Redesign of £2 million for 2018/19 reduce the deficit further but this leaves £2.4 million to be funded from general fund balances earmarked to support the budget.

63. The Comhairle's budget information/financial projections for 2019/20 and 2020/21 include forecast funding gaps of £4.6 million and £2.6 million respectively. The Comhairle plans to bridge these gaps mostly through the Redesign Programme and the transfer of reserves from the general fund as illustrated in [Exhibit 8](#). General fund reserves are expected to decrease to below £18 million by 2021/22 as illustrated in [Exhibit 9](#).

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

Exhibit 8

Identified funding gaps 2017/18 – 2020/21



Source: CNES financial plan

The Comhairle has a five-year financial plan and ten-year financial outlook

64. The Comhairle agreed its Forward Budget Strategy for 2018-22 in February 2018. The Strategy includes efficiency savings of 1% per annum for the five years to March 2023 and a substantial programme of Service Redesign in all of the Comhairle's service areas.

65. An assessment of the long term financial outlook from 2019-2029 was submitted to the Policy and Resources Committee in February 2018 along with the budget papers and shows a range of potential scenarios for the Comhairle. The outlook considers a range of scenarios and the associated savings required to present a balanced budget.

66. 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).

Service redesign plans are significant and cover the next four years

67. As set out in paragraph 64, target savings from Service Redesign of £2 million are included in the 2018/19 budget and there are further Service Redesign savings of £3.2 million in 2019/20, £2.8 million in 2020/21 and £1.7 million in 2021/22.

68. The Comhairle acknowledges a need to redesign services to meet the challenges of tightened budgets and has set itself a challenging timetable for its transformation programme. All service redesign projects will be overseen by the Service Change and Improvement Sub-Committee and CMT. Key actions and milestones in relation to the Service Redesign Programme have been developed by the CMT leading to the identification and agreement of preferred options, together with approval by the Comhairle during October 2018.

69. A budget strategy update by the Chief Executive and Director of Finance and Corporate Resources to the Policy and Resources Committee in June 2018 highlights that the most significant risk to the Budget Strategy is the failure of the Service Redesign process realising the required savings in accordance with the agreed timetable.

70. We will continue to monitor developments in this area in 2018/19.

Reserves will be depleted during the next four years

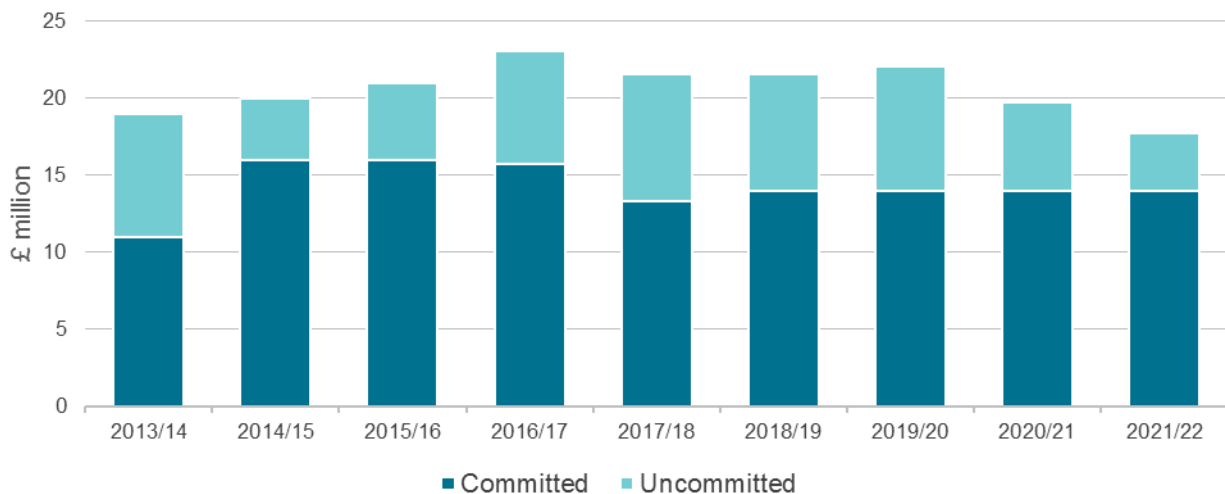
71. The general fund provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

72. The Comhairle reviews the level of its uncommitted reserves 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 2018, unallocated general fund reserves exceeded this strategy by £4.8 million. In June 2018, the Comhairle agreed that uncommitted balances should be set aside to support future years' budgets.

73. [Exhibit 9](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves and the future projections over the next four years.

Exhibit 9

Analysis of general fund from 2013/14 to 2021/22



Source: CNES accounts and financial plans

Part 4

Governance and transparency



Main Judgements

The Comhairle has appropriate governance arrangements in place that support decision making and accountability.

The Comhairle is open and transparent in the way it conducts its business

We plan to assess attitudes to standards of conduct further as part of our 2018/19 audit

There are appropriate governance arrangements support decision making and accountability

74. The Comhairle has a committee structure in place which is underpinned by clear roles for members and officers; and procedural documentation regarding decision making. The Comhairle's decision and delegation arrangements, and its organisational structure are regularly reviewed and updated to ensure they continue to support its key priorities.

75. We attended all Audit and Scrutiny Committee meetings and reviewed agendas, papers and minutes from meetings of the Policy and Resources Committee, as well as the full Comhairle meetings during 2017/18. The papers provided by officers are of a good standard and provide members with a good overview of the issues being covered, together with more detailed information as appropriate. This helps to ensure that issues are debated at committee meetings.

76. Our review of the register of all training courses run for members during the year identified that there was a mixed level of attendance, including some members who have attended very few of the training events offered.

The Comhairle is open and transparent in the way it conducts its business

77. Members of the public can attend meetings of the full Comhairle, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Comhairle's website. Audio from the Comhairle and its committee meetings is also streamed live via the website.

78. The Comhairle's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.

79. The E-Sgìre communities connect portal encourages individuals and groups to engage in dialogue on local matters. The Comhairle carried out an extensive consultation exercise on 'Budget Choices' for 2013/14 and 2014/15; and for 2015/16 to 2017/18. There have also been a series of consultation meetings the on the 'Our Islands Our Future' initiative.

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.

There has been good progress following up NFI matches

80. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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 irregularity. The Comhairle has investigated 201 of the recommended 234 matches (86%). As at February 2018, management had not prioritised NFI investigation due to staff shortages, but good progress has been made since then.

81. Updates are presented to the Policy and Resources Committee on a quarterly basis. However, these are not sufficiently detailed and do not show numbers of matches/recommended matches. These reports should provide a clearer picture to committee of the Comhairle's position relating to NFI. A recommendation was agreed in our 2017/18 Management Report.

82. We noted that 35 matches were identified as errors totalling £6,158, and none were identified as fraud. Most of these errors related to housing benefit overpayments and blue badge parking permits.

Arrangements for the prevention and detection of fraud could be improved and we will assess attitudes to standards of conduct further

83. The Comhairle has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, fraud, corruption and irregularity policy, and codes of conduct for members and officers. However, although registers of interests are in place we were unclear how these are maintained and there were several individuals on the register who were no longer employed by the Comhairle.

84. In July 2018 a Hearing Panel of the Standards Commission for Scotland found that a Councillor had breached the Councillors' Code of Conduct by failing to register a shareholding in a company in which he had shareholding amounting to more than 1% of the share capital of the company, within one month of his acceptance of office, in line with the requirements of 2003 Regulations. The decision of the Hearing Panel was to censure the Councillor.

85. We believe there is scope to update these registers to reflect current staff and member appointments and interests. This was also reported in our 2016/17 Annual Audit Report. We also think its appropriate to further assess member and staff awareness and will consider running a Your Reputation @ Risk (YR@R) web-based survey during 2018/19.



[Recommendation 2 \(refer appendix 1, action plan\)](#)

The Comhairle has assessed its cyber security arrangements as effective

86. The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

87. The pre-assessment check was done and did not produce any significant concerns. Management decided not to proceed with either Cyber Essentials or Cyber Essentials (Plus). The main reason for this was the limited cost benefits from applying for either, given the Comhairle has a valid PSN certificate, valid until January 2019.

88. A 2017/18 internal audit review of the Comhairle's arrangements for managing cyber security highlighted a number of areas of good practice. In response to the Scottish Government Cyber Resilience Action Plan we invited the Comhairle to assess its Active Cyber Defence measures. The Comhairle identified that current practices are generally effective however discussions are ongoing between the Comhairle and Scottish Government about how further improvements could be made. This will be reported as part of our 2018/19 audit.

Business continuity/Disaster Recovery

89. In 2016/17 we reported that the Comhairle's IT Strategy requires an update to reflect current legislation and guidance and that 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.

90. Internal Audit reported in November 2017 that the IT Unit Business Continuity Plan remains incomplete and insufficient to meet the needs of the Comhairle as outlined in the corporate Business Continuity Management strategy and policy. Internal Audit also reported that whilst there is an infrastructure in place for disaster recovery, there are a number of areas of development, testing and training to be undertaken before the Comhairle can be satisfied that it can respond in a comprehensive manner to a 'disaster' event in terms of IT response.



[Recommendation 3 \(refer appendix 1, action plan\)](#)

The Comhairle does not consider it is significantly exposed to the risks arising from EU withdrawal

91. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

92. The Comhairle are aware of the potential risks and have reflected on these areas. The issue is included in the Strategic Risk Register. Until the impact of Brexit becomes clearer, the Comhairle do not consider they are significantly exposed to these risks. The Comhairle considers that its use of EU funding is relatively low at around £4.3 million under current projects, and there are guarantees in place from the UK government regarding all existing projects. Future funding and projects not yet committed to could, however, be impacted.

93. A report to be presented to Policy and Resources Committee in October 2018 will recommend that the Comhairle starts to prepare for additional costs arising from inflation and put in place contingency plans.

Part 5

Value for money



Main judgements

Workforce strategies and arrangements exist but detailed plans are not yet in place.

The Comhairle faces significant recruitment challenges and is developing initiatives and programmes to help.

Equality arrangements are established and consider the needs of individuals, but the gender pay gap is substantial.

Performance is regularly reported, but an increasing number of KPIs are off track.

A full best value report will be completed during our five-year appointment as auditors. This year we reviewed financial management, workforce planning and equality

94. Best value is assessed over the five-year audit appointment as part of the annual audit work. 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 the Comhairle is planned towards the end of the five-year programme.

95. The Best value audit work carried out this year focussed on the Comhairle's arrangements for demonstrating Best Value in financial management (see Part 3), workforce/succession planning and equality. It involved us gaining an understanding of how effective the Comhairle's self-evaluation processes were in driving improvement across the Comhairle. The findings of our work on workforce and equality are reported below.

Workforce strategies and arrangements exist but detailed plans are not yet in place

96. The Comhairle set out new workforce planning arrangements in 2014. Heads of Service are required to produce a detailed plan for service delivery within budget over the next three years. This resulted in changes to policies on Early Retirement, Redundancy and Workforce Change.

97. The Comhairle has prioritised:

- early identification of employees who may be at risk of redundancy;
- formal establishment of an internal job market for employees at risk of redundancy; and
- employees at risk of redundancy having increased resources for retraining and other supporting measures.

98. Internal Audit undertook a review of workforce planning in 2016/17. Their review highlighted the following areas of good practice/observations:

- Staff reductions were kept to a minimum with those leaving through a voluntary severance process rather than by compulsory methods.
- Appropriate training was given to Heads of Service in workforce planning.
- Exit package costs were kept to a minimum .

99. The Transformational Change Strategic Plan is the high-level workforce plan for the Comhairle. The plan is split across the following areas:

- **Transformational Change Plans and Timescales** – this includes a forward five-year plan with detail on the work being undertaken on service options and service choices
- **Workforce Demographics** - this includes detailed information on the Comhairle's apprenticeship strategy and 'managing an ageing workforce strategy' which aims to promote an age diverse workforce in addressing challenges such as legal framework, succession planning, training, flexible working and health and wellbeing
- **Management Processes** - Leadership and management skills will need to adapt to deliver services within the allocated budget provision. The Comhairle plan to adopt a new approach of inter-departmental team working as well as a new performance appraisal process to achieve this.
- **Work and Wellbeing** - This will focus on staff wellbeing and the role of line managers to ensure there is no major impact during periods of transformation. Areas such as job design and flexibility, job security and employee support systems are also detailed.
- **Communication and Consultation** - This sets out the strategy for communication with communities (engagement and consultation) on the vision, purpose and ambitions of the Comhairle including transformation of services. A section on employee engagement and consultation is also included setting out objectives and methods, as well as areas for consultation and methods of support.
- **Internal Audit** - This details the role of internal audit in change management and how they will need to adapt their own strategic plan to remap potential changes in approach.

100. At a time when the Comhairle are reorganising directorates to transform the way services are delivered in the face of further budget constraints, the Transformational Change Strategic Plan addresses the relevant issues in managing the workforce during this transition period. Longer-term forecasts do, however, need to be developed, and the Comhairle would benefit from having more detailed workforce plans to support the workforce and financial strategies. Officers have advised that the next stage for the Plan is to feed more detailed workforce plans into service business plans once the reorganisation has been implemented.

101. We will continue to monitor the Comhairle's workforce plans. In particular the development of more detailed workforce plans to support the financial plans.

The Comhairle faces significant recruitment challenges and is developing initiatives and programmes to help

102. Education faces challenges in recruiting teachers due to the geographical position of some of the posts as well as qualified people leaving the islands for jobs

elsewhere. This is particularly prevalent in subjects such as maths and physics as well as other specialist areas. Measures are being taken to tackle the problem - for example recent initiatives such as hosting students in the islands to encourage them to undertake placements, as well as sponsoring posts in areas that are difficult to recruit nationally. E-sgoil also allows some teaching to be done remotely to help in tackling geographical issues.

103. The Care Inspectorate reported that recruitment to middle and senior management social work posts continues to be a major challenge and that it is not unusual to be unsuccessful in filling vacancies or have a limited pool of applicants. This can be attributed to factors such as unattractive working hours as well as the relatively low pay model in the Western Isles.

104. The Comhairle approved an apprenticeship strategy in October 2017. The term 'apprenticeship' is used to describe a diverse range of vocational and professional training activities being undertaken or anticipated to be undertaken under the umbrella of e-sgoil, which allows training and teaching to be undertaken in a virtual/digital environment thereby removing the geographical challenges in the Western Isles. This is a positive step which addresses some of the barriers to recruitment.

105. The apprenticeship programmes are also an investment in an effort to "grow their own talent" which would reduce the need to recruit in certain areas. This is detailed in the Transformational Change Strategic Plan. The programmes are designed to create a career path to retain talent due to low staff turnover within the Comhairle. The post graduate diploma in education programme is a separate strand of apprenticeship and aims to fill posts in difficult to recruit subjects.

The Islands Deal proposes strategically important development projects to achieve population and employment targets

106. The specific workforce issues outlined above are not unique to the Western Isles but are shared with several other rural and island areas. Currently the principal initiative addressing cross-cutting challenges is the Islands Deal, a joint proposal from the three islands councils (Orkney, Shetland and the Comhairle) to the Scottish and UK Governments, which is modelled on the lines of a City or Regional Deal but with elements unique to the islands. The Islands Deal is focused on improving socio-economic outcomes for people who live and work on the islands. By working together, the islands councils aim to maximise the impact of their collective resources in progressing key issues which are of critical importance to all of the islands.

107. One of the strands of the Deal is 'Achieving our Economic Potential', which proposes a programme of strategically significant development projects in each island area, with a 10-year horizon to achieve the Deal's population and employment targets and a 20-year horizon to embed sustainability. This targets the major challenges common to all the islands, including digital connectivity, transport, housing and fuel poverty, along with opportunities in energy development, tourism, enterprise and workforce development.

108. During the ten years to 2028, the Islands Deal aims to achieve several outcomes. Those relating to workforce and recruitment are:

- A significant rebalancing in the age structure of island populations, by focusing on job creation for the younger working age population in the implementation of Deal projects and programmes, with associated skills development for all.
- A reputation, nationally and internationally, for progressive governance and management of development policies on islands that are increasingly attractive as places in which to live, work, visit, study and invest.

- Sustainable development across sectors that will provide an increasing proportion of relatively well paid employment, by adding value to primary production and creating new opportunities in such activities as research and development, energy and tourism.
- Increased local provision of further and higher education, research and development, and training programmes in key skills related to current and future high quality employment opportunities, giving people of all ages scope for career progression and a range of rewarding life experiences without needing to leave the islands.

109. The Comhairle is an active partner in the Islands Deal and recognises that it needs to overcome challenging issues to progress the project. We will continue to monitor progress against the Islands Deal over the next few years as part of the Best Value approach.

Equality arrangements are established and consider the needs of individuals

110. In line with the Equality Act 2010, the Comhairle have developed an approach to mainstreaming equality, as outlined in the Equality Outcomes and Mainstreaming Report 2017-21.

111. The Corporate Management Team, chaired by the Chief Executive, consists of all Directors who have the responsibility for progressing equality within their individual portfolio. Contact Officers are the Heads of Service in each Department who take a lead role in progressing equalities within the service areas across their portfolio.

112. Consultation with all stakeholders including the public was undertaken in shaping the Comhairle's Equality Outcomes. These are intended to be strategic and provide a degree of flexibility in achieving them as local and national priorities change in light of potential changes to key legislation and new developments. The Outcomes are:

- Make the Western Isles a safe and accessible place to live and work
- Improved range of housing models and related services to promote independent living and to support initiatives which encourage people to continue living within the Western Isles
- The Comhairle is recognised as an equal opportunity employer with an employee profile reflective of and serve the authority area
- Equal Opportunity to high quality learning and teaching in all education settings to develop skills for lifelong learning and working
- People in the Western Isles will have equal opportunity to participate in the development of our public services and their views are represented.

113. Updates against the outcomes are provided annually via Equality Outcomes Progress Reports which are published on the website. Equality impact assessments are also routinely undertaken for new programmes such as the Information Security Policy or the more recent Review of Day Care, Local Area Coordination Post Holding Duties. The Comhairle also carry out an equal pay audit on a biennial basis with the most recent undertaken in 2017.

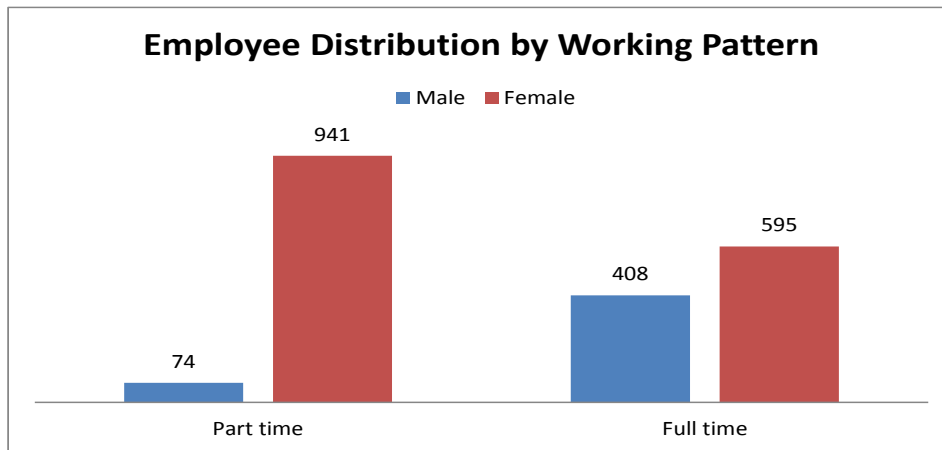
114. Equality and diversity training is included in the induction programmes for all employees. This is outlined in the Equal Opportunities Statement and Policy which is available on the Comhairle website. An Equal Pay Policy outlining the Comhairle's requirements is also available.

The gender pay gap is substantial. The vast majority of part time and lower paid grades are predominantly undertaken by female employees

115. The 2016/17 Local Government Benchmarking Framework report highlights that the current gender pay gap for CNES is 13.7%, which is the largest in Scotland.

116. The Comhairle carried out an Equal Pay Audit in April 2017. The review highlighted that out of the 2,018 Comhairle employees (per the data), 1,536 (76%) employees were female and 482 (24%) employees were male. Exhibit 11 illustrates the number of full time and part time employees. 50% of employees work part time and 50% work full time. The vast majority of part time workers (93%) are female.

Exhibit 10



Source: Comhairle nan Eilean Siar Equal Pay Audit (April 2017)

117. Looking at the data by grade, it is evident that the lower paid grades are predominantly female employees. This is correlated to the part-time issue and is a factor contributing to the relatively large overall gender pay gap.

118. The data within the report also highlights that there are insignificant pay gaps within each grade. The pay gap between men and women arises principally because there is a larger proportion of female workers within the lower grades, rather than differences in pay between men and women within each grade (for example, there are no female Chief Officers). The Comhairle's grading structure therefore appears robust in terms of equal pay as there are no significant equal pay disparities within the grades.

119. The main findings of Comhairle nan Eilean Siar's Equal Pay Audit are:

- The workforce is predominately female at 76%.
- Women are more likely to work in part time, lower graded jobs.
- Men are more likely to work in full time, higher graded jobs.
- The overall pay gap has declined from 2015 but is still above Scottish Local Authority averages and stands at 13.7% (17.5% median).
- There is occupational segregation with females more likely to work in traditional 'female' jobs like care, catering and cleaning.

- The implementation of the Living Wage has had a positive effect on the Gender Pay Gap as more females have benefitted.
- The Comhairle's grading structure is robust in terms of equal pay as there are no significant gender pay gaps within the grades.

120. The report identified several actions and areas for improvement. These include:

- Consider actions to reduce occupational segregation when recruiting for jobs where there is a historical imbalance, for example wording job advertisements to reflect the Comhairle's desire to attract applications from the under-represented groups.
- Monitor flexible working requests and promote flexible working in higher graded posts.
- Introduce equalities training to managers to ensure they understand the reasons for pay gaps, gender stereotypes and the subtle workplace practices that can contribute to pay gaps.
- Leadership training specifically for women currently in middle management posts.

121. Officers have advised that the training strategy is currently being reviewed to incorporate the improvement actions.

Service performance

122. The Continuous Improvement Sub Committee of both Policy and Resources and Audit and Scrutiny Committees 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.

123. The performance management framework uses [How Good is Our Council](#) (April 2012) together with the Public Service Improvement Framework (PSIF) and this is now in established use across all services. Key improvement outcomes from audits, self-assessments and inspections are input to the Comhairle's Continuous Improvement Action Plan maintained on Interplan, the Comhairle's performance management system and monitored by the Sub Committee.

124. Performance is regularly reported, but an increasing number of KPIs are "off track". The Policy and Resources Committee receives regular performance reports throughout the year together with an Annual Performance Report. The reports monitor progress against the Comhairle's key priorities through departmental business plans. The 2017/18 out-turn figures are shown at Exhibit 11.

Exhibit 11

Service Business Plans 2017/18 – End of Year Progress Reports by Department

Service	KPIs	On track	Monitoring required	Off track
Chief Executive	45	29	2	14
Development	49	30	8	11
Education and Children's Services	74	32	8	34

Service	KPIs	On track	Monitoring required	Off track
Finance and Corporate Resources	37	21	10	6
Technical Services	18	10	3	5
Total 17/18	223 (100%)	122 (55%)	31 (14%)	70 (31%)
Total 16/17	228 (100%)	150 (66%)	30 (13%)	48 (21%)

Source: Comhairle nan Eilean Siar; 2017/18 Performance Management Reports

125. Areas performing well include; FOI requests dealt with within the statutory timescale (20 days), young people and new businesses supported to achieve growth, number of funding awards to community projects through Economic Development services, percentage of eligible children registered for pre-school year of Early Learning and Childcare, and number of secondary school pupils achieving passes in exams.

126. Areas where KPIs were off track include numbers of new affordable houses delivered through 2015-18 Strategic Local Programme, corporate travel records, percentage of annual performance appraisals completed, percentage of food hygiene risk premises inspected, percentage spend of Allocated Capital Resources to building projects, and percentage spend of capital allocated to roads investment.

127. Action plans have been developed which set out what is being done to improve performance in these areas. These are monitored and reviewed by the Policy and Resources Committee to assess progress. Business plans and update reports are published on the Comhairle's website.

128. Overall, we concluded that reports on performance and actions are regular and reporting is balanced, but that an increasing number of KPIs are off track in 2017/18 compared to 2016/17.

The arrangements for reporting statutory performance indicators (SPIs) are satisfactory

129. The Accounts Commission places 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 2017/18 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 most recent National Benchmarking Overview Report 2016/17 by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. This report was submitted to the Audit and Scrutiny Committee in May 2018. 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.

Housing benefits performance had declined and there are two significant risks which need to be addressed

132. In December 2017, we published our risk assessment update report on the audit of housing benefit at the Comhairle. A risk assessment was previously carried out of the Comhairle's benefit service in September 2014 in which we identified six risks to continuous improvement.

133. Since then there have been some significant changes within the Revenues and Benefits service. These include a restructuring in which the Revenues and Benefits service has taken on responsibility for carrying out the Comhairle's Social Care Financial Assessments (SCFAs) from September 2015, and the procurement and implementation of a new benefit IT system in June 2017.

134. The loss of an experienced member of staff for three months shortly after implementation had a detrimental impact on claims processing performance. This declined from an average of 23 days for new claims and six days for change events in 2016/17, to an average of 39 days and 12 days respectively, at 31 October 2017. This level of performance placed the Comhairle as the worst performer in Scotland for speed of processing, when compared to the DWP's 2016/17 published performance statistics.

135. There are two risks outstanding from our previous risk assessment and four new risks identified from the 2017 risk assessment. To ensure continuous improvement, the Comhairle needs to address these risks which include:

- the time take to process new claims and changes of circumstances
- the benefit service has suspended its daily management checks from July 2017. There is therefore an increased risk of fraud and error.

136. An update on the speed of processing for Quarter 1 of 2018/19 was obtained in August 2018 which confirmed that processing speed had improved significantly on 2017/18.

137. We will continue to monitor the Comhairle's performance as part of our regular review of the DWPs published performance statistics in respect of new claims and change events. We have concluded however that no further scrutiny is required at this stage and that we will carry out a full review of the Comhairle's performance during our next round of risk assessments in approximately 18-24 months.

National performance audit reports

138. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports which are of direct interest to the Comhairle. These are outlined in [Appendix 3](#).

139. 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 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>An Lantair investment</p> <p>In 2005, the Comhairle invested £0.423 million in a building which cost over £4 million for a 20% pro indiviso share of the property. The investment was not made for the purposes of making a return, but for economic development. The investment is “depreciated” over 30 years in line with other buildings and this is how it has been treated since the beginning.</p> <p>We believe that this treatment is incorrect as the Code identifies that if a property is held for development purposes then it should be classified as Property, Plant and Equipment. If it is an investment property, then cost cannot be used as a valuation basis.</p> <p>Risk – the value of this asset is not reflected at its true value in the financial statements</p>	<p>We recommend that the Comhairle review the accounting treatment in 2018/19 so that this can held at the correct valuation going forward.</p> <p>Exhibit 3 – point 2</p>	<p>The Comhairle will review this during 2018/19</p> <p>Head of Accountancy and Customer Services</p> <p>March 2019</p>
2	<p>Your Reputation @ Risk</p> <p>We identified several individuals on the registers of interest who were no longer employed by the Comhairle (see also follow up of prior year recommendations).</p> <p>The Standards Commission for Scotland found that a Councillor had breached the Councillors’ Code of Conduct by failing to register a shareholding in a company.</p> <p>Risk – procedures and attitudes to business conduct</p>	<p>We believe there is scope to update these registers to reflect current staff and member appointments and interests. This was also reported in our 2016/17 Annual Audit Report. We also believe it is appropriate to further assess member and staff awareness and will consider running a Your Reputation @ Risk (YR@R) web-based survey during 2018/19.</p> <p>Paragraph 85</p>	<p>The register will be reviewed.</p> <p>Chief Executive</p> <p>March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	expose the Comhairle to potential fraud or loss		
3	<p>IT Risks</p> <p>In 2016/17 we reported that the Comhairle's IT Strategy requires an update to reflect current legislation and guidance and that the IT Unit Business Continuity Plan is still to be completed, together with a system prioritisation plan.</p> <p>Internal Audit reported in November 2017 that the IT Unit Business Continuity Plan remains incomplete and that whilst there is an infrastructure in place for disaster recovery, there are a number of areas of development, testing and training to be undertaken.</p> <p>Risk – 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>Continuing weaknesses in business continuity and disaster recovery procedures and documentation require to be addressed.</p> <p>Paragraph 90</p>	<p>The implementation of agreed actions in relation to Disaster Recovery form part of the 2018/19 Business Plan.</p> <p>Director of Finance & Corporate Resources</p> <p>March 2019</p>
Follow up of prior year recommendations			
b/f	<p>Payroll verification</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>Risk – 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>In progress</p> <p>Substantive payroll testing for 2017/18 did not highlight any similar instances. However, internal audit highlighted in their April 2018 payroll review that starter and leaver notifications were not always being provided to the central payroll team by departments in a timely manner. This has resulted in necessary changes not being made at the appropriate time resulting in underpayments and overpayments to current or ex-employees. Our own testing confirmed this issue and our findings were included in a management report that was presented to the Audit and</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			Scrutiny Committee in May 2018. These findings will be followed up as part of our 2018/19 audit.
			Training is being provided to all managers. Head of Procurement & Exchequer Services December 2018
b/f	<p>Budget monitoring</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>Risk - 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>	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>In progress</p> <p>The developing budgetary picture was reported to members throughout the year. However, services in relation to the IJB were not reported accurately as not all known funding was included resulting in a large increase in the underspend in the final quarter – see paragraph 47. Reporting in year for the IJB amended from 2018/19 to take into consideration any unspent transfers of funds from NHS to Comhairle as they occur.</p> <p>A financial monitoring plan for the IJB has been agreed with the Chief Finance Officer</p> <p>Head of Accountancy & Customer Services</p> <p>Completed</p>
b/f	<p>Registers of interest</p> <p>We identified several individuals on the registers who were no longer employed by the Comhairle.</p> <p>Risk – members/officers interests and those of their close family are not adequately disclosed to enable potential conflicts to be identified and managed.</p>	There is scope to update the register to reflect current staff and member appointments.	<p>In progress</p> <p>We believe there remains scope to update these registers to reflect current staff and member appointments and interests.</p> <p>Refer to recommendation 2 in this action plan.</p> <p>Refer to action 2</p>
b/f	<p>IT Risks</p> <p>The IT Strategy requires an update to reflect current</p>	The Strategy should be updated to reflect current	<p>In progress.</p> <p>Internal Audit reported in November 2017 that the IT</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>Risk – 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>legislation, guidance and priorities.</p> <p>Weaknesses in business continuity and disaster recovery procedures and documentation should be addressed.</p>	<p>Unit Business Continuity Plan is incomplete and insufficient to meet the needs of the Comhairle as outlined in the corporate Business Continuity Management strategy and policy. Internal Audit also reported that whilst there is an infrastructure in place for disaster recovery, there are a number of areas of development, testing and training to be undertaken before the Comhairle can be satisfied that it can respond in a comprehensive manner to a 'disaster' event in terms of IT response. Refer to recommendation 3 in this action plan.</p>
			Refer to action 3

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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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 consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Review of accounting estimates.</p> <p>Use of data analytics to:</p> <ul style="list-style-type: none"> carry out detailed testing of journal entries focus testing of accruals and prepayments <p>Evaluate significant transactions that are outside the normal course of business.</p>	<p>Results – 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>Conclusion – No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</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>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walkthrough of controls over income transactions and significant grant income.</p> <p>Review of National Fraud Initiative (NFI) arrangements and results.</p>	<p>Results – 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>Conclusion – No significant fraud issues were identified.</p>
<p>3 Risk of fraud over expenditure</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</p>	<p>Walkthrough of controls over social care payments.</p> <p>Assessing the overarching controls in grant schemes.</p>	<p>Results – We did not identify any significant issues in our testing of expenditure controls and transactions or our work on National Fraud Initiative matches.</p> <p>Conclusion – No significant fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>areas such as welfare benefits, social care payments and grants.</p> <p>Recent audit work identified payments to an individual who was no longer employed by the Comhairle and a fraudulent request to amend bank details leading to financial loss to the Comhairle. We also reported in our housing benefit report that the benefit service has suspended management checks and intervention activities to ensure that all available resources are focused on core processing work.</p> <p>Some recommended matches in the NFI process have not been adequately investigated by officers.</p>	<p>Detailed testing of expenditure and housing benefit transactions.</p> <p>Review of National Fraud Initiative (NFI) arrangements and results.</p>	

4 New Council Tax / Housing Benefit system

A new IT system for Non-Domestic Rates was introduced in January 2017. The system is provided by Capita and was extended to council tax, housing benefits, council tax reduction and housing benefit overpayment recovery in June 2017. The introduction of a new system provides a risk to the existence and operation of key controls and to the migration of data between systems.

Review of planning and testing documentation produced and maintained by the Comhairle.

Testing of the data migrated to the new system for assurance over accuracy and completion.

Walkthrough and testing of the controls of the new system.

Substantive testing of the year end balances from the new system.

Results – We did not identify any significant issues with the data migration or the year end balances in relation to the new system. However, we noted that some controls in relation to control account reconciliations and reliefs/discounts (for both council tax and NDR) had not been applied due to additional pressures from the system migration. Management have confirmed that these controls are now operating.

Conclusion – The year end balances included within the financial statements are accurate. We will revisit the controls as part of our 2018/19 audit to confirm their continued operation.

Emergent risk identified after planning stage

5 Residential care charging

The system for individual financial assessments for care charges transferred to the Comhairle's Revenue and Benefits team in 2015 and has had a backlog. In the absence of a full financial assessment, the Comhairle assumed minimum income contributions (effectively the state pension) with the result that contribution income accruals were for the minimum amounts. As the backlog of assessments reduces

Reviewed the scale of the backlog and the established the extent of additional income

Tested a sample of invoices to ensure accuracy

Interviewed finance and legal staff involved

Considered the general prescription period that applies

Results - The Comhairle has made progress in addressing the backlog of residential care charging, which has generated additional income. Following detailed analysis, income of £1.044m, billed in 2017/18 but relating to the period prior to the establishment of the Integration Joint Board, has been accrued to the Comhairle. Since this covers a period going back several years, a bad debt provision of £0.508m has been made against it, resulting in net additional income for the Comhairle of £0.536m.

Audit risk	Assurance procedure	Results and conclusions
the Comhairle has been raising invoices for substantial amounts of additional income. The minimum income assessment underestimated actual income and assets.	Reviewed the assessment of bad debt provision that has been applied	Conclusion – The basis of the income is correct, and a fair value has been represented in the financial statements.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice











<p>6 Financial sustainability</p> <p>In setting its 2017/18 budget the Comhairle identified 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, was to be funded from reserves. Using reserves in this way isn't sustainable and the Comhairle will need to make further decisions to address its financial position in the short term and plan for the medium and long term.</p>	<p>Review budget monitoring reports and the financial position at the year end.</p> <p>Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non-recurring savings.</p> <p>Review of assumptions included within the financial plan.</p> <p>Reliance on the work of internal audit on budget setting arrangements.</p> <p>Assess whether long term financial planning includes the affordability of capital investment plans and the impact on revenue budgets.</p>	<p>Results - The developing budgetary picture was reported to members throughout the year. However, services in relation to the IJB were not reported accurately as not all known funding was included resulting in a large increase in the underspend in the final quarter. All assumptions in respect of financial planning are reasonable. Savings in 2018/19 will be recurring and for the 5 years of the current Comhairle management envisage further savings as part of service redesign. Long term financial projections show the cumulative budget shortfalls for the ten year period 2017-28 considering sensitivity to grant funding, pay awards and inflation. Additional revenue implications for new capital projects have been recorded as low risk in plans.</p> <p>Conclusion – The Comhairle are in a fairly strong medium to long term position and are planning appropriately. However, they face short term uncertainties including service redesign.</p>
<p>7 Workforce planning</p> <p>The Comhairle has had problems with recruitment affecting performance in a number of service areas. The number of people of working age living in the Western Isles over the next 20 years is expected to fall.</p> <p>The latest Local Government Benchmarking Framework data highlights that the current gender pay gap for staff at the Comhairle is 16.4%. This is the highest in Scotland, which has an average of 4.5%. There is a risk that the Comhairle is unable to provide services and close gender pay gaps to meet</p>	<p>Review key Comhairle documents including the Equal Opportunities Statement and Policy, Equality Outcomes and Mainstreaming Reports and Equality Monitoring Statistics.</p> <p>Review and assess the Comhairle's medium and longer-term workforce plans.</p> <p>Investigate the reasons for the gender pay gap, looking at particular staff groups and services.</p> <p>Assess plans for addressing some of the key workforce</p>	<p>Results – Review of documents and data in relation to Equality confirmed that the gender pay gap is significant. However, there are valid reasons for this gap and management are looking at measures to reduce this. Measures to address workforce issues are being implemented such as those with the Transformational Change Strategic Plan, including the Apprenticeship Strategy. Longer-term forecasts do, however, need to be developed, and the Comhairle would benefit from having more detailed workforce plans to support the workforce and financial strategies.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>business and strategic objectives in the future.</p>	<p>challenges that face the Comhairle.</p>	<p>Conclusion – The Comhairle are taking action to address the gender pay gap and workforce issues they face. We will continue to monitor the development of more detailed workforce plans to support the financial plans.</p>
<p>8 ICT risks</p> <p>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 fully addressed. This was reported in our 2016/17 Annual Audit Report.</p> <p>The Comhairle has not fully implemented email security measures. The DMARC (domain-based message authentication, reporting and conformance) system is recommended by the UK National Cyber Security Centre (NCSC).</p> <p>There is a risk that the Comhairle remain vulnerable to cyber-attacks and may be unable to provide services in the event of key systems failure as it does not have adequate business continuity planning.</p>	<p>Undertake specific ICT review of data security and information governance, including review of:</p> <ul style="list-style-type: none"> • progress in implementing action and reporting arrangements • compliance with Scottish Government cyber security arrangements <p>Assess development of business continuity planning.</p>	<p>Results - Internal Audit reported in November 2017 that the IT Unit Business Continuity Plan remains incomplete and that whilst there is an infrastructure in place for disaster recovery, there are a number of areas of development, testing and training to be undertaken.</p> <p>The Comhairle has assessed its cyber security arrangements as effective. In response to the Scottish Government Cyber Resilience Action Plan we invited the Comhairle to assess its Active Cyber Defence measures. The Comhairle identified that current practices are generally effective however discussions are ongoing between the Comhairle and Scottish Government about how further improvements could be made. This will be reported as part of our 2018/19 audit.</p> <p>Conclusion - Continuing weaknesses in business continuity and disaster recovery procedures and documentation require to be addressed.</p> <p>The Comhairle's review of cyber security arrangements did not produce any significant concerns. We will conduct a follow-up review of cyber defence measures during 2018/19.</p>

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Comhairle nan Eilean Siar

2017/18 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk