

# Comhairle nan Eilean Siar

2019/20 Annual Audit Report



 AUDIT SCOTLAND

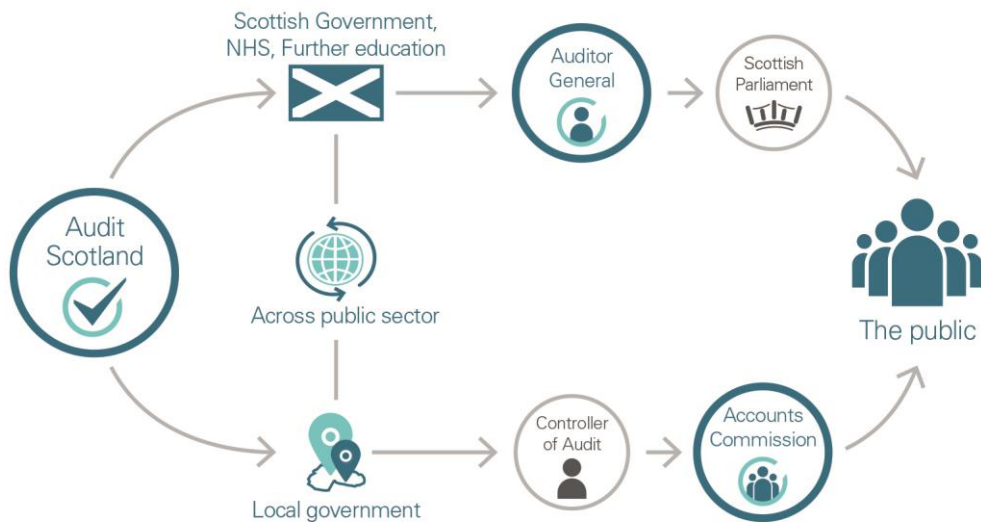
Prepared for the Members of Comhairle nan Eilean Siar and the Controller of Audit

18 November 2020

## 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.

---

# Contents

---

Key messages	4
Introduction	5
Part 1 Audit of 2019/20 annual accounts	7
Part 2 Financial management	11
Part 3 Financial sustainability	17
Part 4 Governance and transparency	20
Part 5 Best Value	22
Appendix 1 Action plan 2019/20	26
Appendix 2 Significant audit risks identified during planning	32
Appendix 3 Summary of national performance reports 2019/20	36

---

# Key messages

## 2019/20 annual accounts

- 1 Our audit opinions on the annual accounts of the Comhairle and its group are unmodified
- 2 An adjustment of £1.6 million has been made in the audited accounts, to reflect a revised assessment of the pension liability

## Financial management & financial sustainability

- 3 Financial monitoring arrangements are good. The Comhairle achieved a surplus of £0.6 million in 2019/20, with Crown estate funding contributing to the improvement versus budget
- 4 Only 32 per cent of service redesign savings were achieved in 2019/20, but a “transformational change team” has been set up
- 5 The 2020/21 budget was based on service redesign savings targets of £2.6 million and a planned £1.6 million deficit.
- 6 Covid-19 has reduced the expected savings by £1 million and increased the expected deficit. The net costs of £2.2 million due to Covid-19 in 2020/21, will be met from reserves if required, as Scottish Government funding is still to be finalised.
- 7 The Comhairle budget strategy is being refreshed in response to COVID-19 and community conversations have helped to inform members’ decisions

## Governance, transparency & best value

- 8 The Comhairle has appropriate governance and performance arrangements but these have been impacted by the Covid-19 pandemic
- 9 59% of 34 core performance indicators are in the bottom two quartiles relative to the rest of Scotland, with economic development performing well and children’s services poorly compared to other councils
- 10A £100m Growth Deal for the Islands has been announced

# Introduction

1. This report summarises the findings arising from the 2019/20 audit of Comhairle nan Eilean Siar (the Comhairle) and its group. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented to the meeting of the Audit and Scrutiny Committee on 3 March 2020. This report comprises the findings from:

- an audit of the annual accounts and its group including the issue of independent auditor's reports setting out our opinions
- a review of the Comhairle's key financial systems
- audit work covering the Comhairle's arrangements for securing best value relating to delivery of improvement against key performance indicators
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016 \(Exhibit 1\)](#).

## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

2. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the Comhairle has had to respond to the global coronavirus pandemic. We issued a paper, [Covid-19 How public audit in Scotland is responding](#), setting out Audit Scotland's strategy and approach to our financial and performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

## Adding value through the audit

3. We add value to the Comhairle through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

4. We aim to help the Comhairle promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. 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. 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. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the effectiveness of the Comhairle's performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position; the arrangements for securing financial sustainability and Best Value. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

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

8. 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 the steps being taken to implement them.

## Auditor Independence

9. 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 therefore the 2019/20 audit fee of £202,620 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. 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](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

**Our audit opinions on the annual accounts of the Comhairle and its group are unmodified.**

**An adjustment of £1.6 million has been made in the audited accounts, which reflects a more accurate assessment of the pension liabilities, in line with the proposed remedy to the issues identified by the McCloud case**

**Covid-19 impacted on the audit of the annual accounts and on some of our wider-code work**

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual accounts are unmodified

**11.** The accounts for the Comhairle and its group for the year ended 31 March 2020 were approved by the Audit and Scrutiny Committee on 18 November 2020. As reported in the independent auditor's report;

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 relevant regulations and guidance.

### Covid-19 impacted on the audit of the annual accounts and on some our wider code work

**12.** In March 2020, in response to the global Covid-19 pandemic, Scotland went into lockdown. The Scottish Government advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the Annual Accounts. The Comhairle published the unaudited accounts on 30 June 2020 in accordance with the original timescale.

**13.** Throughout the audit process there has been on-going discussions with Comhairle staff, and their support enabled the audit to proceed, however the limitations of remote working did impact on our audit timetable and the audit took longer. This report also identifies some of our wider code work, which we were unable to complete due to Covid-19 restrictions. This included a review of the capital programme slippage (paragraph 42) and procurement arrangements (paragraph 54)

**14.** 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.

**15.** No objections were received on the annual accounts. 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 2019/20 accounts.

## Whole of Government Accounts

**16.** In accordance with the WGA guidance we intend to complete the required assurance statement and submit it to the National Audit Office by the extended deadline of 4 December 2020.

## Overall materiality is £1.7 million

**17.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 2](#).

---

## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£1.7 million
Performance materiality	£1.0 million
Reporting threshold	£75,000

Source: Audit Scotland, Annual Audit Plan 2019/20

---

## Audit work addressed the main risks of material misstatement

**18.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.


## We have a number of significant findings to report from the audit

**19.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 3](#).



## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Property valuations and Covid-19 uncertainty</b></p> <p>The Valuation Office Agency (VOA) carry out a rolling programme of asset revaluations on behalf of the Comhairle to ensure that assets are held at the correct value.</p> <p>The Valuer identified limited uncertainty due to the COVID-19 pandemic over the valuation of the Comhairle's non-operational Property, Plant and Equipment as at 31 March 2020 (and not its operational assets).</p> <p>The VOA strongly recommended that surplus assets and assets held for sale should be revalued to take account of downward valuations due to the specific nature of these classes of asset.</p>	<p>The Comhairle engaged with the VOA to request revaluations in accordance with their recommendation.</p> <p>The Comhairle's non-operational assets are not material.</p> <p>Further advice provided by the VOA indicated that non-operational assets should be reviewed no earlier than in the last quarter of 2020/21 once markets settled and they would have a better idea of any impairments.</p> <p>Officers updated the notes to the accounts (Note 3) to reflect the estimation uncertainty of Property, Plant and Equipment valuations.</p> <p>We recommend that surplus assets and assets held for sale are added to the current programme of revaluations for 2020/21 in accordance with the VOA advice. We determined that the matter did not require an 'emphasis of matter' paragraph in our independent auditor's report</p> <p> Recommendation 1 (refer <a href="#">appendix 1</a>, action plan)</p>
<p><b>2. Pension Fund Valuation adjustment</b></p> <p>The Comhairle accounts for its share of Highland Pension Fund assets or liabilities 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). Draft accounts were based on the actuarial report prepared in April 2020.</p> <p>On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.</p> <p>The actuary provided a revised IAS19 report for inclusion in Comhairle accounts for 2019/20.</p>	<p>The amendment resulted in a decrease of £1.6 million of the pension liability of the Comhairle and £1.7 million of the group.</p> <p><b>Conclusion:</b> This issue has been adjusted in the audited annual accounts.</p> <p>Disclosure has also been added in Note 43 – Events after the Reporting Period.</p>
<p><b>3. Legal Case Settlement</b></p> <p>In October 2020, the Comhairle settled a historic legal case that had previously been disclosed as a contingent liability in Comhairle annual accounts.</p>	<p>.</p> <p>The Comhairle agreed to pay a sum of £0.450 million in settlement of the legal case. Comhairle expenditure in the 2019/20 annual accounts has therefore increased by £0.450m and reserves have decreased in the Balance sheet by £0.450m.</p> <p><b>Conclusion:</b> This issue has been adjusted in the audited annual accounts</p>
<p><b>4. Pension scheme property valuations (Covid-19)</b></p>	<p>We considered the basis of IAS 19 reporting and the extent of level 3 investments held by Highland Pension Fund (these are the hardest to value as they are not frequently traded and are valued</p>

The IAS19 report received from the actuary, Hymans Robertson, provided the year end pension information for Comhairle nan Eilean Siar. No additional uncertainty was identified in the IAS 19 report on the asset values. However, the unaudited accounts of Highland Pension Fund include a Material Valuation Uncertainty note that covers the valuation of the Fund's UK property portfolio, due to the unprecedented set of circumstances caused by the Covid-19 pandemic.

subjectively rather than by reference to market prices). We also considered the normal valuation uncertainty and the relative share of this risk borne by Comhairle nan Eilean Siar.

**Conclusion:** The uncertainty is disclosed in Note 3 – Assumptions made about the Future and Other Major Sources of Estimation Uncertainty to the accounts and we determined that the matter did not require an 'emphasis of matter' paragraph in our independent auditor's report.

### 5. Developed land depreciation

Under IAS 16, land is considered to have an unlimited useful life and is not subject to depreciation. The Comhairle have depreciated land at Castlebay Business Park in error.

The Comhairle have charged £25k annual depreciation to land over a five-year period to 2019/20 prior to revaluation at 31 March 2020.

Through the 2019/20 revaluation the accumulated depreciation charge of £125k has been credited to the revaluation reserve. As land should not be subject to depreciation the £125k credit should have been to the Income and Expenditure account, reducing expenditure in the year by £125k.

This error has been adjusted in the audited annual accounts.

Source: Audit Scotland

## Misstatements have been corrected in the audited statements

**20.** There were two adjustments to the accounts to reflect events after the balance sheet date. The first was due to the requirement to revise the pension liabilities for the impact of the McCloud judgement detailed in [Exhibit 3](#) above. The second adjustment was in respect of the legal case that was reported as a contingent liability in the unaudited accounts. As this case was settled in October 2020, the accounts have been updated to reflect the £0.45 million costs that the Comhairle has agreed to pay as settlement.

**21.** One further adjustment was made as the Comhairle incorrectly applied depreciation to a land asset ([Exhibit 3](#)). We reviewed the Comhairle's other land assets and concluded that no other land assets had been subject to depreciation, in accordance with guidance.

**22.** Each of the adjustments reported above relate to specific circumstances and do not reflect a systematic issue, and apart from work described above, we concluded that no further amendment to our audit approach was necessary.

## Some progress has been made on prior year recommendations, but a few require action

**23.** The Comhairle has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#) and in our June 2020 Management Report.

# Part 2

## Financial management



### Main judgements

**Financial monitoring arrangements are good. The Comhairle achieved a surplus of £0.6 million in 2019/20, with Crown estate funding contributing to the improvement versus budget.**

**Only £0.8 million of £2.5 million (32 per cent) service redesign savings were achieved in 2019/20, but a “lessons learned” report led to a transformational change team being set up**

**Capital budgets continue to be significantly underspent and forecasting and reporting could be improved**

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

### The 2019/20 budget gap of £4.9 million was to be met by £2.5 million savings and £2.4 million from general fund reserves

**24.** The 2019/20 budget was approved at a meeting of the Policy and Resources committee in February 2019. Budgeted expenditure for the year was £108.5m with budgeted income from the General Revenue Grant (£84.5m), national non-domestic rates (£8.5m) and council tax (£10.6m) totalling £103.9m.

**25.** A budget gap of £4.9 million was identified after the application of service redesign savings achieved in 2018/19, increasing the council tax rates by the maximum 4.79 percent, an increase to the Scottish Government grant announced in January 2020, and the assumption of one percent efficiency savings across.

**26.** The remaining gap was bridged with £2.5m of planned service redesign savings and planned use of £2.4 million of reserves.

### Financial management and reporting is good

**27.** Following approval of the 2019/20 budget, financial performance was monitored by the Corporate Management team and reported through quarterly revenue and capital outturn reports to the Policy and Resources committee.

**28.** The Comhairle has a budget board, comprising Members from all wards, including the Chairs of committees, that oversees implementation of the Comhairle’s forward budget strategy. The budget board reviewed its remit in August 2019 and continues to engage with communities to identify priorities for feeding into the annual budget setting process.

### The actual outturn for 2019/20 was a surplus of £0.6 million

**29.** The outturn achieved was a surplus of £0.6 million, which is significantly better than the £2.4 million deficit expected to be met by reserves in the original budget. The main elements that contributed to this included:

- underspent centrally held resources (£0.7 million)
- loan debt repayment savings (£0.7 million)
- Scottish crown estate income (£1.7 million) (paragraph 32)

**30.** In 2018/19 we reported that centrally held budgets had been set too high and this situation appears to have repeated in 2019/20, however there have been some adjustments to these budgets in 2020/21 including:

- The 2020/21 budget has reduced loans fund repayments by £0.4 million.
- At Quarter 1, the Director for Assets, Finance and Resources reported that a review of loan charges would be undertaken and that some savings on interest costs would be identified.
- A £0.19 million allocated to the capital match fund as part of the budget approved in February 2020 has been removed to support budget pressures.

### **Covid-19 related costs in 2019/20 were relatively minor**

**31.** Additional costs in 2019/20 related to COVID-19 were only £64,000, with £22,000 attributed to mobilisation costs and £42,000 from lost income as a result of service and facility closures.

### **Scottish Crown estate funding increased income by £1.7m**

**32.** New arrangements for funding “coastal community benefit” in Scotland were announced by Scottish Ministers in September 2019. This replaced the Coastal Communities Fund (CCF) in Scotland. Funds are allocated to coastal local authorities from net revenue generated from Scottish Crown Estate marine assets. The net revenue from these assets totalled approximately £7.5 million across Scotland in 2017/18.

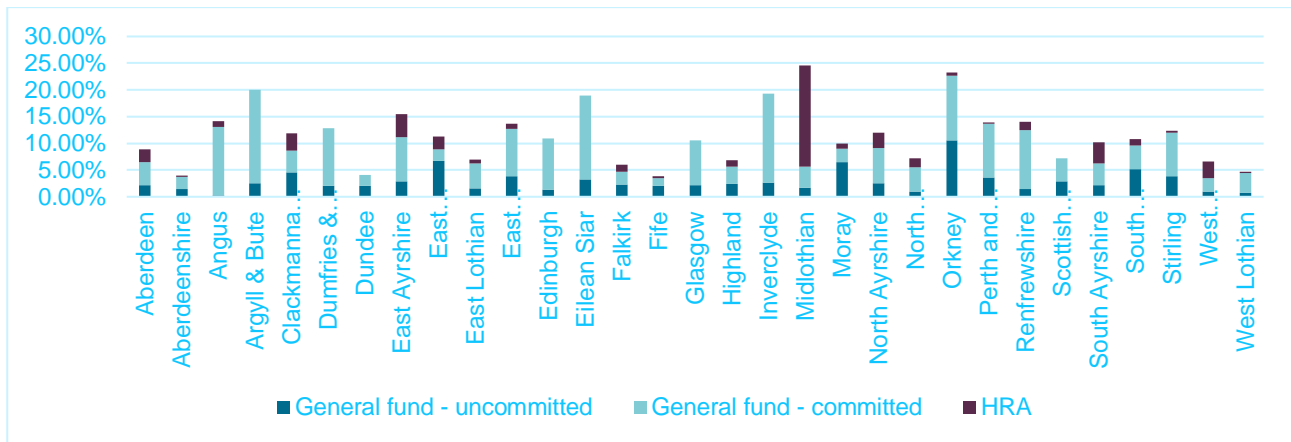
**33.** Using a distribution method agreed with COSLA based on each local authority’s share of the adjacent sea area, the Comhairle received £1.7m in September 2019. This unbudgeted income was a significant reason for the overall £1m surplus reported at year-end.

### **The Comhairle has a relatively high level of general fund reserves**

**34.** The level of general fund reserves held by the Comhairle increased from £19.4 million in 2018/19 to £20.0 million in 2019/20, largely as a result of the Scottish Crown estate income and centrally held budget underspends noted above. Based on the size of the Comhairle, it has a relatively high level of reserves compared to other Scottish Council’s at 16% of total annual revenue, as illustrated in [Exhibit 4](#).

## Exhibit 4 General Fund balances vs Annual Revenue

Comhairle nan Eilean Siar has the 6<sup>th</sup> highest General Fund (incl HRA) reserve relative to its size



Source: Unaudited Annual Accounts 2019/20 (excludes Shetland (159%) to aid scaling)

## Only £0.8 million of £2.5 million (32 per cent) of service redesign savings were achieved in 2019/20

**35.** In 2018 the Comhairle committed to a programme of transformational change to make service redesign savings of £9.75 million over a four-year period. In the first two years, around £1.5 million of the planned £4.5 million savings were achieved.

In 2019/20 the Comhairle budgeted for service redesign savings of £2.5 million. £1.1 million of the savings were to come from Waste and Cleaning services, £1.1 million from Transportation and £0.3 million from Economic Development. By the year-end, only £0.8 million of the planned savings had been achieved. Savings achieved in Economic Development totalled £0.3 million in line with budget. However, only £0.4 million savings were achieved in the Transportation budget, principally from the bus contract tender exercise. Waste Services delivered less than £0.1 million of the budgeted £1.1 million savings.

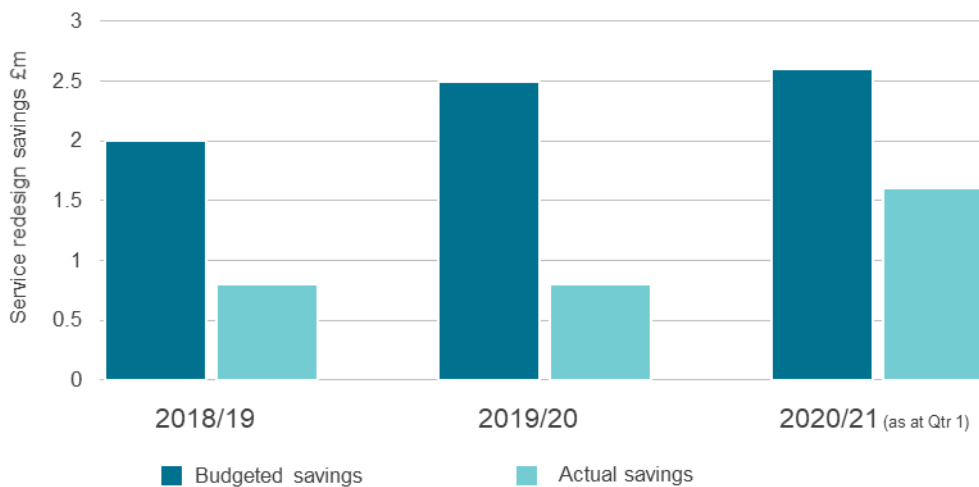
**36.** Reduced savings in Transportation is attributed to a delay in agreeing new bus service contracts to replace those due to end in March 2019. Existing contracts were extended for a further six months to permit consultation on proposed new services and a tender exercise. New contracts were agreed from October 2019 and are expected to deliver over £1.2 million savings in each year of the seven-year contract.

**37.** [Exhibit 5](#) illustrates the service redesign savings achieved against budget in 2018/19 and 2019/20 and so far in 2020/21.

## Exhibit 5

### Actual service redesign savings achieved against budget

Actual savings have been less than budgeted



Source: Comhairle nan Eilean Siar revenue Outturn reports

### The Budget Board commissioned a “lessons learned” report and a transformational change team was set up

**38.** The Budget Board commissioned a review of the Transportation redesign process after savings were delayed and to support future redesign exercises. Ten recommendations were identified including earlier planning works within services, earlier engagement with procurement, and a clearer, streamlined responsibility and reporting structure.

**39.** Addressing the lack of leadership of service redesign projects, and to support the required improvement in pace of delivery of service redesign savings, the Comhairle's Directors in the Transformational Change team assumed responsibility, with projects split into 2 groups.

**40.** A Project Management Framework has been established which gives the Transformation and Change Team additional responsibility to:

- Oversee all service redesign projects;
- Scrutinise services across the Comhairle for potential redesign;
- Ensure that Impact and other Equality Assessments are undertaken and that there is Quality Assurance over all redesign projects; and
- Report progress to the Budget Board, Service Committees and Policy and Resources Committee.

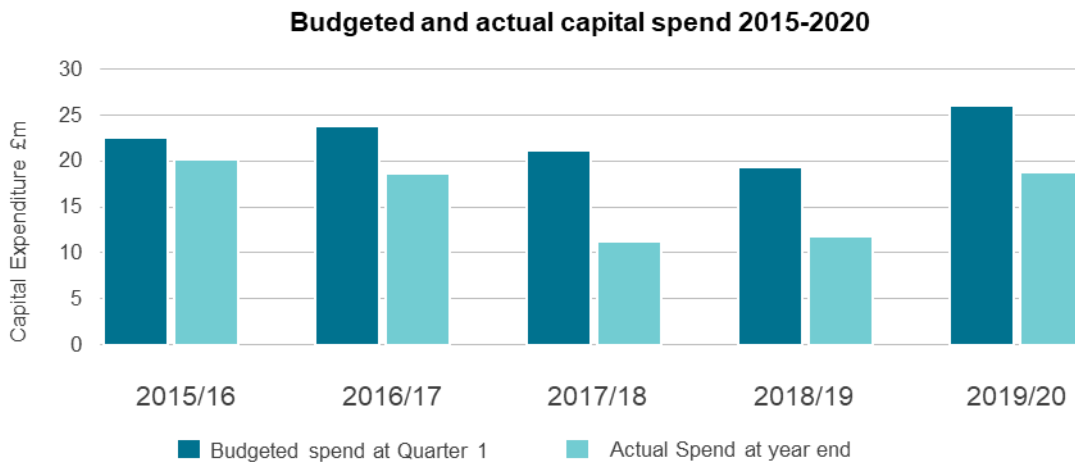
### Capital expenditure has slipped in each of the last five years. Covid-19 affected our planned review of this area

**41.** In 2019/20 the Comhairle planned to spend £26 million from its capital budget on projects as part of the 2018-23 capital programme. At year end, total spend was £18.8 million, an underspend of £7.2 million.

**42.** As shown at [Exhibit 6](#), the Comhairle has underspent against budget in each of the past five years, with underspends of £10 million in 2017/18 and £7 million in each of the last two years.

## Exhibit 6

### Slippage in planned capital expenditure 2015-2020



Source: Comhairle nan Eilean Siar capital reports 2015/16 – 2019/20

**43.** As noted in our 2018/19 Annual Audit Report, the Director for Assets, Finance and Resources attributed the underspends to capital programme slippage. We planned audit work in 2019/20 to examine the causes of capital slippage and to establish whether individual projects are being delivered on time and on budget.

**44.** Covid-19 has impacted on both the finance team at the Comhairle and our audit team and we have been unable to obtain the necessary audit evidence in 2019/20 to form a judgement on the extent and detailed causes of capital slippage. Despite this, we believe there is scope for the Comhairle to improve its forecasting of capital projects and more accurately plan expenditure, recognising the extent of optimism bias that appears to have existed in previous plans.



#### Recommendation 2

**The capital programme should be reviewed to reflect the apparent optimism bias that has existed in previous plans.**

#### Capital monitoring reports could provide greater detail on slippage

**45.** Quarterly capital outturn reports are presented to the Policy and Resources committee. A final capital outturn report was presented to the Comhairle Board in June 2020. These reports provided members with an update on total capital spend in the previous quarter, and year-to-date, as well as spend on individual capital projects within each service.

**46.** There is scope for capital monitoring reports to be extended to include budgeted spend at each quarter and overall movement on total expected cost and completion dates of each project. This would allow members to better scrutinise capital expenditure and investigate the causes of programme slippage.



### Recommendation 3

**Quarterly capital reports should include budgeted and actual spends for each project (for the quarter) and overall movements on the total expected cost and completion dates of each project.**

#### The Comhairle expects capital costs to rise due to COVID-19

47. Costs associated with stopping capital works at the beginning of the lockdown period included bringing work sites to a secure position and subsequent maintenance costs. Remobilisation costs have been incurred to recommence works and there are also increased ongoing costs to comply with the impact of social distancing and reduced productivity. Additional costs to deliver the Lewis Residential Care Development are estimated at £0.7 million.

#### Capital funding in 2020/21 was lower than expected and the Comhairle now expects to borrow for its capital programme.

48. The Comhairle's five-year capital programme runs from 2018-2023. The programme includes assumptions about future Scottish Government capital grant allocations. However, the funding allocation for 2020/21 was £1.6 million lower than the programme assumed.

49. A capital programme review was undertaken by the Director for Assets, Finance and Resources and reported to the Comhairle on 24 June 2020. The review projected a £5.7 million shortfall.

50. The review identified limited scope to reduce the capital programme to generate the necessary savings. The review therefore recommended that the Comhairle approve borrowing in 2022/23 to provide up to an additional £7 million in capital funds. The borrowing will cost £0.4 million to the revenue budget each year over a 40-year period.

#### Financial systems of internal control operated effectively

51. As part of our audit we identify and assess 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 body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

52. Our findings were included in our management report that was presented to the Audit and Scrutiny Committee on 23 June 2020. Our management report noted that, as a result of Covid-19, not all planned key controls work had been completed. Additional work to complete our review of financial systems has now been completed. We concluded that the key controls were operating effectively and would not contribute to any material misstatement in the financial statements.

#### Procurement arrangements are appropriate, but Covid-19 affected further audit work in this area

53. In our management report presented to Audit and Scrutiny in June 2020 we noted that procurement controls are effective but recommended that a procurement risk register is introduced and training for officers progressed.

54. Further testing of procurement exercises, to assess compliance with the Comhairle's procurement strategy and policies, has been affected by Covid-19 and we have been unable to complete this work.



# Part 3

## Financial sustainability



### Main judgements

The 2020/21 budget was based on service redesign savings targets of £2.6 million and £1.6 million deficit, funded from reserves. Covid-19 has reduced the expected savings by £1 million and increased the expected deficit.

The Comhairle is projecting an additional deficit of £0.8 million in 2020/21

The net costs of £2.2 million due to Covid-19 in 2020/21, will be met from reserves if required, but Scottish Government funding is still to be finalised. Most of the losses are due to lost income.

The Comhairle budget strategy is being refreshed in response to COVID-19 and requires significant additional savings of £2.2 million in 2021/22. Community conversations have helped to inform members' decisions

Medium-term financial plans should continue to be revised to reflect Covid-19.

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

### The 2020/21 budget had a financial gap of £4.2 million to be met from service redesign savings and use of reserves

**55.** In March 2020 the Comhairle approved a budget for 2020/21 with an initial budget gap of £6.4m, this was then reduced to £4.2 million, recognising council tax increases (4.84 per cent) and ongoing service redesign savings (£1.3 million).

**56.** The remaining budget gap is to be addressed by:

- assumed service redesign savings of £2.6 million; and
- the planned use of £1.6 million of reserves.

### Recently, covid-19 affected the extent of expected service redesign savings and £1 million will now be met from reserves

**57.** Following the COVID-19 outbreak, the Comhairle reviewed the service redesign savings target and concluded that £1 million of savings would not be achievable. The Comhairle have agreed that this shortfall will be met from reserves.

### The Comhairle is projecting an additional deficit of £0.8 million

**58.** The most recent revenue outturn report presented to Policy and Resources committee in September 2020 indicates that the Comhairle will have a year-end deficit of £0.8 million. This deficit is attributable to the Health and Social Care service.

**59.** The Comhairle assumes that additional costs in this area cannot be wholly met from IJB reserves and will in part need to be funded from balances. The Comhairle does, however, assume that COVID-19 related costs will be recovered from the Scottish Government.

**60.** Other services and departments are forecast to be within tolerable budget variances to carry forward at year end.

### **COVID-19 net costs for 2020/21 are estimated at £2.2 million**

**61.** The Comhairle's projected costs for addressing COVID-19 in 2019/20 (excluding IJB related costs) are £4.3m. These will be offset by agreed Scottish Government funding, which currently totals £1.7 million, and savings from reduced costs (such as travel) of £0.4 million. This leaves £2.2 million, which might be met by additional funding or from Comhairle reserves, if required.

**62.** A budget strategy update in September 2020 advised that a further £0.4 million of consequential funding to combat Covid-19 has been allocated to the Comhairle, by the Scottish Government, and additional income is also anticipated in the form of an income loss scheme, estimated at around £0.5 million.

### **Income has significantly reduced due to Covid-19 in the first quarter of 2020/21 and make up most of the expected losses**

**63.** The single biggest cost to the Comhairle in responding to the pandemic is lost income. The total cost in 2020/21 is estimated at £3.7 million, or 86 per cent of total costs associated with COVID-19. The Comhairle reported lost income of almost £0.8 million in the first quarter of 2021/21, attributable to the closure of facilities and services.

### **The Comhairle's ten-year financial plan estimates a cumulative deficit of £23 million by 2030/31**

**64.** The Comhairle presented its long-term financial plans as part of the 2020/21 budget. The financial projections assume the delivery of £2.6 million of service redesign savings in 2020/21 and include further assumptions around maintaining a three percent council tax rise, pay inflation and long-term reductions in the Revenue Support Grant. The Comhairle forecasts a cumulative deficit by 2030/31 of £23 million.

### **The Comhairle budget strategy is being refreshed in response to COVID-19 and requires significant additional savings of £2.2 million in 2021/22**

**65.** The budget setting process for 2021/22 has been brought forward by three months, as the Comhairle prepares to set future budgets in the context of recovery from the impact of COVID-19.

**66.** The Comhairle's budget strategy for 2021/22 and 2022/23 was approved in June 2020. The Comhairle estimates that £6.6 million of savings may be needed over the two-year period, with £4.4 million to be saved in 2021/22.

**67.** The budget strategy sets out three areas of focus to deliver the required savings:

- Delivery of the £1.6 million service redesign savings that are considered achievable in 2020/21
- Tightening financial controls
- Service business plans to deliver 10% savings through service redesign or reduction

**68.** The Comhairle's approach to Budget Strategy and Business Planning for 2021/22 and beyond was subsequently considered at Members' Seminars and a Special Meeting of the full Comhairle in August 2020. These meetings considered business plan proposals prepared by Directors and Heads of Service.

**69.** Business plans presented to the Comhairle identified savings of £3 million in 2021/22 and a further £1.0 million saving in 2022/23. This leaves a residual deficit of £2.2 million once additional consequential funding of £0.4 million is applied. The Comhairle will consider further options at a budget seminar in October 2020.

### **The Comhairle has engaged with communities over its business recovery plans**

**70.** The Comhairle set up an online survey to engage with communities over the proposed business recovery plans. The survey asked members of the community to respond to the options within the draft plans and was open during a two-week period in September.

**71.** Responses were circulated to Comhairle members to help inform budget prioritisation and decision making. Live stream events have given the public an opportunity to get updates on the Comhairle's financial position and the consultation process. A fifth round of community conversations was launched in October 2020 and an additional four question survey permitted the public to provide further responses to inform the members seminar.

### **Medium term financial plans should continue to be revised to reflect the impact of Covid-19 and delayed service redesign savings**

**72.** The Comhairle's medium-term financial plan was prepared before the full impact of Covid-19 was known. As previously noted, £1 million of the service redesign savings are no longer considered achievable in 2020/21 and income will now be significantly lower. The Comhairle's budget strategy was revised in September 2020 but plans will need to continue to be updated as the impact of the Covid-19 pandemic evolves.

# Part 4

## Governance and transparency



### Main Judgements

**The Comhairle has appropriate and effective governance arrangements, but these have been impacted by the Covid-19 pandemic**

**A Corporate Recovery Team has been established to address slippage in service redesign and the recovery from Covid-19 and the corporate strategy refreshed**

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.

### **Overall governance arrangements are appropriate but have been impacted by the Covid-19 pandemic from March 2020.**

**73.** On an annual basis the Comhairle updates its local code of corporate governance. The 2020-21 local code of corporate governance was approved by the Comhairle Board in June 2020.

### **Governance arrangements were revised from March 2020 to address the impact of COVID-19**

**74.** The impact of COVID-19 from March 2020 has been set out in the Annual Governance Statement in the Comhairle's annual report and accounts. The response included meetings of committee being held remotely using video-conferencing technology. Comhairle staff were moved to home-working and others reallocated as necessary.

**75.** Meetings of Service Committees, and Audit and Scrutiny and Policy and Resources Committees were suspended from April until September, with priority business considered at special meetings of the Comhairle.

**76.** As COVID-19 restriction were relaxed, meetings of the Comhairle's main committees resumed in September 2020.

**77.** In August 2020 Audit Scotland published [a Guide for audit and risk committees](#). The guide recognises the key role that audit committees have to play in scrutinising public sector bodies' governance arrangements as they respond to the pandemic.

### **A complaint was dismissed by the Standards Commission**

**78.** The Standards Commission for Scotland's hearing scheduled for March 2020 to consider the alleged contravention of the Councillor's Code of Conduct by a Member of the Comhairle was postponed due to the Covid-19 pandemic and was subsequently dismissed. as it was no longer in the public interest to pursue a new hearing date.

## Governance assurances from social care services were not received

**79.** Annual corporate governance assurances are prepared by service Directors and submitted to the Chief Executive to provide assurance that systems of internal control have operated effectively throughout the year.

**80.** Returns were submitted for all services except Social Care, due to the resignation of the Integration Joint Board Chief Officer in April 2020.

## A Corporate Recovery Team has been established

**81.** A Corporate Recovery Team (CRT) was formalised in 2020 to respond to the twin challenges of service redesign savings not being delivered and the challenges to be met in recovering from the impact of COVID-19.

**82.** The CRT has assumed the responsibilities previously held by the Corporate Strategy Team (CST) and those of the Transformational Change team (TCT). Comprising the Chief Executive, the service Directors and the Executive Head of Corporate Services, the CRT has a remit to conclude the original service redesign programme and align this with a recovery strategy. This is expected to require significant organisational and workforce change in the next few years.

## The Comhairle's corporate strategy has been refreshed in the context of Covid-19

**83.** The Comhairle agreed in June 2020 to review its Corporate Strategy and statement of Political Priorities. A revised Corporate Strategy was approved by the Policy and Resources Committee in August 2020 alongside its Political Priorities for the remainder of the current term to 2022.

**84.** The corporate strategy 2020-22 reduces the number of strategic themes from four to three including:

- Community and Public Services
- Economy
- Energy and Climate Change

**85.** Priorities to progress these themes are set out in a Political Priorities report. Named lead officers are identified to deliver objectives and a lead Committee designated to provide oversight and scrutiny of plans to deliver corporate objectives.

**86.** Having aligned the Comhairle's Corporate and Political Strategies in the context of COVID-19 and a new way forward, the Comhairle intends to use these as the basis for forward budget planning, service redesign and workforce strategy.

# Part 5

## Best Value



### Main judgements

**Performance management arrangements are appropriate**

**59% of 34 core performance indicators are in the bottom two quartiles relative to the rest of Scotland, with economic development performing well and children's services poorly compared to other councils.**

**The community planning website has not been maintained and reports and meeting papers are not available**

**A £100m Growth Deal for the Islands has been announced**

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

### A Best Value Audit will be undertaken in 2021/22

**87.** Best value is assessed over the 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 period. The BVAR report for Comhairle nan Eilean Siar was planned for 2020/21. However, the BVAR programme has been extended due to COVID-19. The BVAR is now planned before the end of the current audit appointments in 2021/22.

**88.** The best value audit work carried out this year focussed on the Comhairle's arrangements for demonstrating best value in service performance. The findings of this work are reported below. The effectiveness of the Comhairle's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

### Performance management arrangements are appropriate

**89.** The Comhairle's performance management arrangements were considered as part of our ongoing best value audit work and reported in our Management report in June 2020.

**90.** We identified that the Comhairle has a framework for complying with its statutory performance reporting requirements and performance reports are published in both committee papers and in a performance section of the Comhairle website.

**91.** Following the COVID-19 outbreak performance reports were considered at special meetings of the Comhairle Board under revised governance arrangements. Service committees resumed meetings in September 2020

## A programme of self-assessment evaluations is ongoing

92. The Comhairle has a programme of self-assessment that has utilised Public Service Improvement Framework (PSIF) toolkits to review its arrangements and support continuous improvement. In June 2020 a further five BV Self assessments were reported to the Audit and Scrutiny committee:

- Risk Assessment
- Customer Focus
- Efficiency
- Equalities
- Challenge and Improvement.

93. To date, seven BV toolkits have now been completed and are summarised in the 'PSIF' progress reports. A further eleven reviews are planned.

## The Comhairle fully complied with the Accounts Commission's 2018 Direction

94. We assessed the Comhairle's arrangements for complying with the Accounts Commission's 2018 Direction and reported our findings in our 2019/20 Management Report.

95. We concluded that the Comhairle has a framework for measuring and reporting outcomes against two prescribed Strategic Performance Indicators (SPI's) and that reporting requirements were met in 2019/20.

## 59% of 34 core performance indicators are in the bottom two quartiles relative to the rest of Scotland

96. 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.

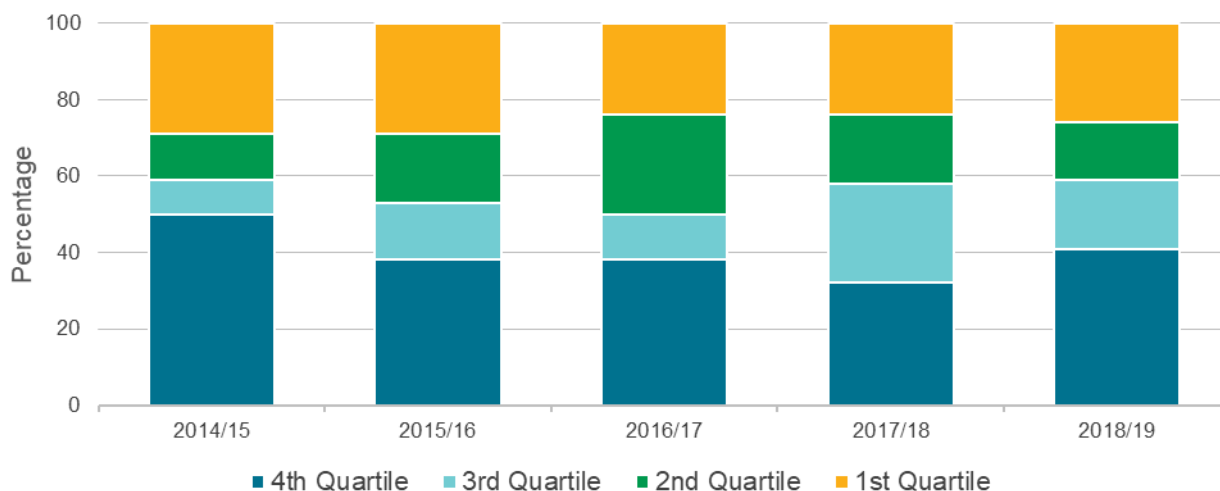
97. The Improvement Service reported on performance across 82 indicators for the period 2018/19 (75 in 2017/18). However, looking just at outcomes-based indicators (excluding cost indicators) there are 51 core indicators. Some of these are irrelevant to the Comhairle as they relate to housing or museums and in a few cases, data is incomplete for some of the previous five years, so our assessment is based on the remaining 34 indicators.

98. [Exhibit 7](#) shows that the Comhairle has been in the bottom quartile for at least 50 per cent of the indicators in each of the past five years, and for 59 per cent in the last two years.

## Exhibit 7

### Relative performance of 34 core indicators

The Comhairle has 59% of non-cost indicators in the bottom two quartiles when compared to other councils



Source: Local Government Benchmarking Framework 2014/15-2018/19

### The Comhairle performs well in Economic Development but Children's Services performance has deteriorated

**99.** We also assessed the Comhairle's performance at service level. The Comhairle performs well for those indicators measuring performance in Economic Development. For 5 of the 7 indicators assessed the Comhairle is ranked in the top quartile and they rank in the second quartile for the remaining two.

**100.** In Children's services, we assessed eight of the total 15 indicators. Only two of the eight scored in the first quartile (four in 2018/19) with the remaining six ranked in the third or fourth quartiles.

**101.** The percentage of pupils attaining five or more awards at level five placed the Comhairle in the first quartile in each year from 2014/15 to 2017/18. In 2018/19 the Comhairle were placed in the third quartile for this indicator.

**102.** In Corporate services and Environmental services, the Comhairle ranked in the bottom quartile for five of eight (63%) and five of six (83%) indicators respectively.

### Targets should be set for indicators that are aligned to the Comhairle's Corporate Objectives

**103.** The Comhairle have not set their own targets for the Local Government Benchmarking Framework performance indicators. It is therefore difficult to evaluate whether the Comhairle is delivering improvements across services in line with their own expectations.

**104.** To permit effective self-assessment of progress, the Comhairle should set milestones and targets for National Indicators. This would permit the Comhairle to assess the extent to which actions taken are delivering the desired improvements and identify areas where a refreshed approach may be required. It also allows the Comhairle to explicitly deprioritise areas that aren't consistent with overall priorities.





#### Recommendation 4

**Targets and milestones should be set against National Indicators. This will permit the Comhairle to better scrutinise progress against its priorities.**

---

#### **The community planning website has not been maintained and reports and meeting papers are not available**

**105.** Minutes and papers of meetings of the Outer Hebrides Community Planning Partnership (OHCPP) are published on the OHCPP website. However, the latest meeting published is from March 2019.

**106.** University of the Highlands and Islands (UHI) appointed a graduate to lead on updating and maintaining the website but the pandemic has significantly impacted on their capacity to complete this work. The Comhairle are currently looking into using a page on their website to host OHCPP information.

---



#### Recommendation 5

**OHCPP papers and minutes should be published on the Comhairle website until the OHCPP website is fully operational**

---

#### **A £100m Growth Deal was announced in July 2020**

**107.** The Comhairle in conjunction with Shetland Islands and Orkney Islands submitted proposals for an Islands Growth deal in November 2019. The Leaders and Chief Executives of the three Islands councils met with the Cabinet Secretary for Transport, Connectivity and Infrastructure in January 2020 with workshops then taking place in March 2020. Through these workshops the proposals and projects included in the proposals were considered. In July 2020, a £100m Growth Deal was announced, funded equally between the UK and Scottish Governments. Projects to be funded will include those specific to the Western Isles and several joint-island proposals.

**108.** Investment will take into account the current economic challenges arising from the COVID-19 pandemic and tourism, infrastructure, innovation, energy, and skills will be targeted for the funding.

**109.** Work is ongoing to agree heads of terms to identify the projects that will be funded, before final sign off on the Deal. It is expected that project funding will begin in 2021/22.

#### **National performance audit reports**

**110.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#). In our 2018/19 Annual Audit Report, management agreed that they would continue to disseminate national reports.

# Appendix 1

## Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Non-current asset valuation uncertainty</b></p> <p>The Valuation Office Agency (VOA) undertake a rolling programme of non-current asset valuations.</p> <p>Following the COVID-19 outbreak, the VOA recommended that surplus assets and assets held for sale should be revalued during the final quarter of 2020/21.</p> <p><b>Risk</b> – there is a risk that the valuation of surplus assets and assets held for sale in 2020/21 accounts will not reflect their true value.</p>	<p>The Comhairle should include surplus assets and assets held for sale in the asset revaluation programme scheduled for 2020/21.</p> <p><a href="#">Paragraph 19</a></p>	<p>Agreed</p> <p>Head of Accountancy and Exchequer Services</p> <p>31 March 2021</p>
2	<p><b>Capital budget forecasting</b></p> <p>Capital budgets have been underspent by over £7 million in each of the past two years, and in every one of the past five years.</p> <p><b>Risk</b> – there is a risk that capital programmes and capital budgets are unrealistic.</p>	<p>The capital programme should be reviewed to reflect the apparent optimism bias that has existed in previous plans.</p> <p><a href="#">Paragraph 42</a></p>	<p>Agreed</p> <p>Head of Property and Infrastructure</p> <p>31 March 2021</p>
3	<p><b>Capital Monitoring</b></p> <p>Capital monitoring reports advise members of the main areas of spend each quarter. However, they do not include budgeted spend or clear explanations for variances against budget or overall movements on total cost/ completion.</p> <p><b>Risk</b> – capital monitoring reports may not contain enough detail to scrutinise slippage</p>	<p>Quarterly capital reports should include budgeted and actual spends for each project (for the quarter) and overall movements on the total expected cost and completion dates of each project</p> <p><a href="#">Paragraph 46</a></p>	<p>The Comhairle will review the format of quarterly capital reports</p> <p>Head of Accountancy and Exchequer Services</p> <p>31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p><b>National Indicators</b></p> <p>The Comhairle does not set targets or milestones for Statutory Performance Indicators reported through the Local Government Benchmarking Framework.</p> <p><b>Risk</b> – there is a risk that the Comhairle cannot determine how effectively actions being taken are support priorities.</p>	<p>Targets and milestones should be set against national indicators. This will permit the Comhairle to scrutinise progress against its priorities</p> <p><a href="#">Paragraph 104</a></p>	<p>Agreed</p> <p>Chief Executive</p> <p>31 March 2021</p>
5	<p><b>OHCPP meetings</b></p> <p>Papers and minutes of meetings of the OHCPP have not been published on the website since March 2019.</p> <p>Maintenance for the website to bring it up to date has been delayed as capacity was moved to responding to the COVID-19 pandemic.</p> <p><b>Risk</b> – The OHCPP is not open and transparent</p>	<p>OHCPP papers and meeting minutes should be published on the Comhairle website until the OHCPP website is brought up to date.</p> <p><a href="#">Paragraph 105</a></p>	<p>Agreed</p> <p>Chief Executive</p> <p>31 March 2021</p>
6	<p><b>NFI Self Appraisal Checklist</b></p> <p>In our 2018/19 AAR we recommended that officers review arrangements for participating in the NFI exercises, using the Audit Scotland checklist, and report progress to committee.</p> <p>Our 2019/20 Management report followed up and made further recommendations for the Comhairle to action in the 2020/21 NFI exercise.</p>	<p>Management should action recommendations set out in our 2019/20 Management Report.</p> <p>As per b/f 4 below.</p>	<p>Agreed</p> <p>Head of Accountancy and Exchequer Services</p> <p>31 March 2021</p>
7	<p><b>Conduct training/survey</b></p> <p>In our 2018/19 AAR we recommended that a Your Reputation @ Risk survey was utilised by the Comhairle to assess Member and staff awareness of their expected conduct.</p> <p>The Comhairle elected not to run this survey and instead</p>	<p>If the Your Reputation @ Risk survey is not undertaken, training should be provided for all staff as soon as practicable.</p> <p>As per b/f 17/18 below.</p>	<p>Agreed</p> <p>Executive Head of Corporate Services</p> <p>31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>planned to provide training to all staff.</p> <p>This training has been delayed as the online training programme undergoes revision.</p> <p><b>Risk</b> – Comhairle staff and Members may not be aware of expectations set out in their respective codes of conduct, or of the Comhairle’s policies and procedures.</p>		
8	<p><b>Business Continuity Plans</b></p> <p>In our 2018/19 AAR we noted that service business continuity plans have yet to be formally refreshed and a corporate business plan has consequently been delayed.</p> <p><b>Risk</b> - there is a risk that the Comhairle’s is not well prepared to address future disruptions to their business continuity arrangements.</p>	<p>The business continuity working group should use the lessons learned from the Comhairle response to COVID-19 to co-ordinate the development of refreshed service and corporate business continuity plans.</p> <p>As per recommendation b/f 2017/18 below.</p>	<p>Agreed</p> <p>Director for Assets, Finance and Resources</p> <p>31 March 2021</p>
9	<p><b>Procurement Risk Register</b></p> <p>The procurement manager has prepared an early draft of a procurement risk register. This was due to be approved by 30 Sep 2020 as reported in our 2019/20 Management Report. This has been delayed as a result of procurement staff re-prioritisation and homeworking.</p> <p><b>Risk</b> – there is a risk that without a formal procurement risk register, the Comhairle fail to identify and address existing or emerging procurement risks</p>	<p>A procurement risk register should be approved by members and reviewed periodically.</p>	<p>Agreed</p> <p>Legal and Procurement Manager</p> <p>31 March 2021</p>
10	<p><b>Procurement Officer Training</b></p> <p>Refresher training for the procurement team has not been carried out for several years.</p> <p>Training was due to be carried out by 30 September 2020, as</p>	<p>Training should now take place in 2021 to take account of procurement law following the conclusion of the Brexit transition period.</p>	<p>Agreed</p> <p>Legal and Procurement Manager</p> <p>31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>reported in our 2019/20 Management Report.</p> <p><b>Risk</b> – there is a risk that officers involved in procurement exercises fail to comply with the Comhairle’s procurement policies.</p>		
<b>Follow up of prior year recommendations</b>			
b/f 1	<b>Centrally held budgets</b>	Centrally held resources and contingencies should be reconsidered as part of the next budget setting process.	<p><b>Complete</b></p> <p>In 2019/20 earmarked reserves identified as no longer required were transferred back to general reserves.</p> <p>Underspend on centrally held resources decreased from £1.2m to £0.7 million in 2019/20</p> <p>In 2020/21 funds allocated to the HISTP Match Fund were returned to balances to support budgetary pressures.</p>
b/f 2	<b>Service redesign savings may not be achievable</b>	The Comhairle should assess whether current service redesign savings targets are achievable and consider the impact this will have on reserves	<p><b>Complete</b></p> <p>The Comhairle has recognised the service redesign savings that can and cannot be achieved in the current programme.</p> <p>A Corporate Recovery Team is overseeing the conclusion of this phase of redesign and a forward budget strategy alongside the Budget Board.</p> <p>Significant service redesign and reductions will be required to support the Comhairle’s financial sustainability.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 3	Restructuring	The Comhairle should review the organisational restructuring after its first year to confirm the level of savings realised and the benefits to the organisation.	<p><b>Complete</b></p> <p>A review of savings achieved indicates that the expected savings of £0.3 million will be achieved within the five-year period following restructure.</p>
b/f 4	NFI Self Appraisal Checklist	Management should assess arrangements for participating in NFI exercises and report outcomes to committee	<p><b>Ongoing</b></p> <p>Our 2019/20 management report recommended a risk-based approach to investigating matches, clearer delegation of responsibilities using the self-assessment checklist, and regular progress reporting to the Audit and Scrutiny Committee.</p> <p>This should be implemented for the 2020/21 exercise.</p> <p>As set out at recommendation 6 above.</p>
b/f 5	Impact against milestones in the LOIP have not been measured	Performance against milestones identified in the LOIP should be reported to permit the OHCPP to demonstrate where improvements are being delivered and provide assurance that activities undertaken are providing added value to communities	<p><b>Complete</b></p> <p>Two versions of the annual review are published – including a full version that reports progress against each objective's performance indicator.</p> <p>The full version is unlikely to be published in 2019/20 as a result of COVID-19 but we expect that this will resume in 2020/21.</p>
b/f 6	Stornoway West Locality Plan progress	The OHCPP should ensure a locality plan for Stornoway West is developed to support delivery of improved outcomes in the area.	<p><b>Complete</b></p> <p>A Stornoway West Locality Plan was approved by the OHCPP in November 2019.</p>
b/f 7	National performance audit reports	Management should consider submitting national performance audit reports to committees for Member's information.	<p><b>Complete</b></p> <p>National reports are circulated having regard for their content and relevance.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 17/18	<p><b>Register of Interests / Your Reputation @ Risk</b></p> <p>The Comhairle elected not to run our YR@R survey and planned to run a training exercise for staff using LearnPro.</p> <p>This training has not yet been provided and the LearnPro programme is undergoing revision.</p>	<p>We believe there is scope to update these registers of interests to reflect current staff and Member appointments. 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><b>Complete</b></p> <p>A complete set of registers of interests were obtained as part of the 2019/20 audit.</p> <p><b>Outstanding</b></p> <p>The Comhairle elected not to run the YR@R survey and planned to provide LearnPro training as an alternative.</p> <p>Training has yet to be delivered and the training programme is being revised.</p> <p>As set out at recommendation 7 above.</p>
b/f 17/18	<b>IT Risks</b>	<p>Continuing weaknesses in business continuity and disaster recovery procedures and documentation require to be addressed</p>	<p><b>Outstanding</b></p> <p>Refreshed service business continuity plans have yet to be prepared using the revised templates. A Corporate business continuity plan, informed by service plans, has also been delayed. Refer to recommendation 5 above.</p> <p>A Cyber Resilience Response Plan and Disaster Recovery Plan have yet to be approved.</p>
b/f 19/20 Management Report	<b>Governance &amp; Transparency – external inspections and audits</b>	<p>All external inspection and audit reports should be presented to the relevant service committee so performance and remedial action taken can be monitored.</p>	<p><b>Complete</b></p> <p>School inspection reports that had not been presented to the Education, Children and Skills service committee were circulated to Members in July 2020.</p> <p>The Head of Education implemented arrangements to ensure all future reports are presented to committee at the correct time.</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 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](#).

**Include any audit risks arising from COVID-19**

### Risks of material misstatement in the financial statements

#### 1 Management override of controls

ISA 240 requires that audit work is planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.

- Use of data analytics to carry out detailed testing of journal entries
- Focused testing of accruals and prepayments
- Evaluation of significant transactions that are outside the normal course of business
- Review and assessment of accounting estimates

#### Results:

- Testing of high-risk journals using data analytics was carried out and satisfactory explanations from officers was received.
- Testing of accruals and prepayments was carried out and no errors were identified
- There were no unexplained significant transactions identified from our audit work.
- Accounting estimates were agreed to expert evaluations and estimates by officers were consistently applied between years.

**Conclusion:** No issues were identified that indicate management override of controls.

#### 2 Risk of material misstatement caused by fraud in income recognition

The Comhairle receives a significant amount of income from several sources including Scottish Government funding, taxation receipts and income from fees and charges. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.

- Testing the operation of key controls over Council Tax, NDR, income and cash & bank systems
- Analytical procedures on income streams
- Detailed testing of revenue transactions focusing on the areas of greatest risk.

#### Results:

- Our review of key controls found no significant control weaknesses
- Substantive testing, informed by data analytics, identified no errors in recorded income

**Conclusion:** No errors in income recognition identified.

#### 3 Risk of material misstatement caused by fraud in expenditure

Most public-sector bodies are net expenditure bodies and

- Review of key controls within the financial systems including creditors/expenditure systems

#### Results:

- Our review of key controls found no significant control weaknesses



therefore the risk of fraud is more likely to occur in expenditure. The Comhairle incurs significant expenditure in areas such as service provision, welfare benefits and grant funding. An inherent risk of fraud is therefore present.

- Reliance on the work of internal audit on key controls of housing benefits
- Detailed substantive testing of expenditure including staff costs, welfare payments and grants awarded.

- Detailed substantive testing, including service provision, welfare payments and grant funding identified no errors in recorded expenditure.

**Conclusion:** No errors in expenditure recognition identified.

#### 4 Estimation & Judgements

There is a significant degree of subjectivity in the measurement and valuation of the material account areas of fixed assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.

- Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions
- Undertake walk-through testing to understand and assess the methodology used by experts to value non-current assets.
- Assess the appropriateness of actuarial assumptions including comparison with those applied to similar local authorities
- Review officer's assessment of other significant accruals and provisions at the year end
- Review actual experience of significant estimates made in the prior year.

#### Results:

- Our review of experts engaged to provide estimates for non-current assets and pensions found them to be independent, competent.
- Walkthrough testing of controls to value non-current assets was satisfactory
- Actuarial assumptions were found to be reasonable, in line with other similar local authorities, and considered local circumstances.
- The pension liability was revised to reflect updated information on the impact of the McCloud case.
- Non-current asset valuation uncertainty has been recognised as a key estimation uncertainty along with the pension valuation in the audited accounts
- Accruals and provisions tested were found to be reasonable.

**Conclusion:** The additional uncertainty caused by Covid-19 has been disclosed in the audited accounts.

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

#### 5 Financial Sustainability

A reliance on general fund reserves to support the budget has seen the balance drop from £23 million at 31 March 2018 to £19 million at 31 March 2019.

The Comhairle's 2019/20 budget includes the use of a further £2.4m of reserves earmarked to support the budget. At the end of the second quarter of 2019/20 the anticipated use of reserves to support the budget had increased to £3.3m.

- Review budget monitoring reports and the financial position at the year end.
- Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non-recurring savings.
- Monitor planned use of reserves against actual.

#### Results:

In 2019/20 the Comhairle achieved a year end surplus of £0.6m largely due to £1.7m of unbudgeted income from the Scottish Crown estate.

General reserves increased from £19.4m to £20.0m.

Service redesign has only delivered around £1.6m of £4.5m planned savings in the first two years of the four-year programme.

£1m of service redesign savings appear unachievable in 2020/21 and will be met from reserves.

Reliance on reserves to bridge budget gaps is unsustainable in the longer term. There is a risk that the Comhairle is unable to achieve the necessary sustainable savings measures through service redesign and other measures or meet cost pressures as they arise to sustain a prudent level of reserves.

- Review of assumptions included within the financial plan.

Financial planning for 2021-22 has begun earlier than normal in recognition of the significant savings services will need to make, and to permit public consultation.

**Conclusion:** Medium term financial plans should continue to be revised to reflect the impact of COVID-19 and further service redesign.

## 6 Financial Management

Being able to set an achievable balanced budget is a key aspect of good financial management. In 2018/19 significant variances to budget were identified in relation to service redesign savings achieved and in expenditure from centrally held budgets.

There is a risk that financial management processes are unable to report and control expenditure in line with plans adding to the risk of issues medium/long-term sustainability.

- Review of year end service redesign savings achieved against planned savings
- Review of centrally held budget outturn against budget.

### Results:

The Comhairle delivered £0.8m of planned service redesign savings in 2019/20 – against budgeted savings of £2.5m

Centrally held budgets were underspent by £1.7m in 2019/20. This included underspends on loans fund repayments, higher than budgeted investment income, and £0.7m of centrally held resources budgeted but not spent in the year (£1.2 million in 2018/19).

The Comhairle returned earmarked balances no longer required to general reserves in 2019/20.

Centrally held resources underspend was reduced at year-end.

Capital match fund resources allocated in 2020/21 have been returned to balances to support budgetary pressures.

## 7 Governance & Transparency – capital slippage

The Comhairle has underspent against its capital budget in the past two years. In 2017/18 and 2018/19 the Comhairle planned to spend £21m and £19m. Actual spends were £11m and £12m respectively.

There is a risk that capital slippage is not being identified at an early enough stage to allow spending to be transferred and accelerated in other projects or that capital plans are being overly optimistic in their scale/pace.

- Review of capital monitoring reports to assess whether these provide sufficient detail relating to programme spending, individual project spending against earlier estimates, and annual spending against budgets.
- Review of how slippage in the capital programme is identified and reported.
- Review a sample of recently completed capital projects and assess actual costs and timing of spend

### Results:

Capital spend continues to be significantly lower than budget each year.

There is scope for capital monitoring reports to better report spend in each quarter against budget and to explain reasons for over and underspends.

We were unable to obtain the required audit evidence to draw conclusions on the principal causes of slippage and we will consider revisiting this as part of our audit work in 2021.

**Conclusion:** the Comhairle should seek to improve its forecasting of when capital projects are expected to

	against original budgets.	commence, and expenditure incurred.  The Comhairle should extend capital monitoring.  <b>As recommended in Appendix 1 – recommendations 2 and 3</b>
<b>8 Governance and transparency - procurement fraud</b>	<ul style="list-style-type: none"> <li>Assessment of controls around procurement including review of relevant policies and procedures, staff training provision, and recognition of procurement fraud risk in operational risk registers.</li> <li>Review of recent procurement exercises to assess compliance with procurement policies and procedures.</li> </ul>	<p><b>Results:</b></p> <p>As reported in our Management report in June 2020, controls around procurement were found to be well established and effective.</p> <p>We were unable to obtain evidence from officers due to Covid-19 restrictions to demonstrate compliance with procurement policies during 2019/20.</p> <p>We recommended improvements around training and implementing a procurement risk register.</p> <p><b>As per Appendix 1 – recommendations 9 and 10</b></p>
<b>9 Value for Money</b>	<ul style="list-style-type: none"> <li>Review performance data from the Local Government Benchmarking Framework over time to evaluate the performance and direction of travel</li> <li>Compare performance with local authorities with a similar geographical context and those from the same family group</li> <li>Evaluation of progress in achieving the objectives set out in the Outer Hebrides Community Planning Partnership (OHCPP) Local Outcome Improvement Plan.</li> <li>Assessment of the circumstances of the geography and island context in determining whether performance is affected by the environment in which the Comhairle operates.</li> </ul>	<p><b>Results:</b></p> <p>Review of national indicators demonstrates that in the Comhairle performance has deteriorated relative to others</p> <p>Higher costs and spends per head are similar to other Island Authorities and reflect the low population and additional costs of an Island Authority.</p> <p>OHCPP reporting includes measuring performance against milestones. These are reported in the full OHCPP Annual review. This is unlikely to be reported in 2019/20 but we anticipate will be reported in future years.</p> <p>Conclusion: The Comhairle should set targets for those national indicators that relate to their priorities, to demonstrate what progress is being made and the extent to which investment represents value for money.</p> <p><b>As per Appendix 1 - recommendation 4.</b></p>

# Appendix 3

## Summary of national performance reports 2019/20



**2019/20  
Reports**

		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	Early learning and childcare: follow-up

# Comhairle nan Eilean Siar

## 2019/20 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



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