

Comhairle nan Eilean Siar

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

26 October 2022

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Key messages

2021/22 annual accounts

- 1 Our audit opinions on the annual accounts of the Comhairle and its group are unmodified

Financial management and sustainability

- 2 The Comhairle achieved a surplus of £3.9 million in 2021/22, mainly due to unspent Covid-19 funding (£4.3 million) and departmental underspends of £2.3 million, offset by additional resources allocated during the year
- 3 Reserves have risen by £12.3 million over the past three years to £31.7 million with £28.2 million currently earmarked for specific purposes
- 4 The 2022/23 budget includes planned use of reserves of £0.5 million and savings of £1.4 million
- 5 The Comhairle had a combined £3.2 million projected deficit in 2022/23 and 2023/24. However, due to higher pay awards and energy cost inflation this has now risen to £8.6 million – subject to savings being identified to offset the shortfall
- 6 The Comhairle needs to implement a medium-term financial strategy

Governance and transparency

- 7 We investigated and reviewed some governance issues in 2021/22. The Comhairle responded positively to any issues identified and made necessary changes
- 8 The Comhairle has reviewed its committee structure, senior management team structure and constitutional documents
- 9 The Comhairle still needs to appoint a new Director of Finance

Best Value

- 10 Elected members must provide leadership and oversight over clearer strategic priorities
- 11 Strategic workforce and asset management planning is required

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Comhairle nan Eilean Siar (the Comhairle) and its group.
2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the 23 June 2022 meeting of the Audit and Scrutiny Committee. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.
3. The main elements of our audit work in 2021/22 have been:
 - an audit of the annual accounts of the council and its group and the issue of independent auditor's reports setting out our opinions
 - a review of the council's key financial systems
 - a full Best Value Audit Review (BVAR) that was presented to the Accounts Commission in September 2022
 - consideration of the four audit dimensions and a follow up of prior year recommendations
4. The global coronavirus pandemic continued to impact on the Comhairle during 2021/22. This has had implications for the services it delivers and its ability to achieve strategic priorities. We considered the risks related to the pandemic as part of our audit planning and did not consider there to be any significant audit risks for 2021/22.

Adding value through the audit

5. 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

Responsibilities and reporting

6. 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.

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

8. 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.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

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

11. 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.

12. 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

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. 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 2021/22 audit fee of £212,960 as set out in our Annual Audit Plan remains unchanged.

We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website 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.

Audit appointment from 2022/23

15. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year, so that 2021/22 is the last year of the current appointment round. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue as appointed auditor for the Comhairle. We are working closely with the new audit team to ensure a well-managed transition.

16. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016. There are several significant changes introduced by the new Code, including the integration of Best Value work into wider scope audit work.

17. We would like to thank elected members, Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

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

One unadjusted error was identified which would increase the value of land and buildings on the balance sheet by £0.9 million

The Comhairle has made limited progress in implementing our prior year audit recommendations.

Our audit opinions on the annual accounts are unmodified

18. The accounts for the Comhairle and its group for the year ended 31 March 2022 were approved by the Audit and Scrutiny Committee on 26 October 2022. 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

The annual accounts were submitted in line with our agreed audit timetable

19. The unaudited annual report and accounts were received in line with our agreed audit timetable on 29 June 2022. Working papers provided were of a good standard. In particular, working papers covering non-current assets were of a high standard and this helped the timely completion of audit work in this area.

No objections to the annual accounts were raised

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies 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. No objections were received.

Overall materiality is £2.1 million

21. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values. We also determine a lower performance materiality threshold.

22. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

23. 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 1](#).

Exhibit 1

Materiality values for both the Comhairle and its group

Materiality level	Amount
Overall materiality	£2.1 million
Performance materiality	£1.3 million
Reporting threshold	£85 thousand

Source: Audit Scotland

We have significant findings to report on the audited annual accounts

24. 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. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Accounting for Covid personal protective equipment (PPE) and testing kits</p> <p>Due to the late availability of information, the unaudited accounts did not account for Covid-19 PPE equipment and testing kits. These were supplied, free of charge, to local authorities in 2021/22 by National Services Scotland (NSS).</p> <p>NHS NSS data on PPE issued to community hubs established that the Comhairle received PPE equipment and testing kits to the value of £1 million.</p> <p>LASAAC guidance to practitioners in July 2021 advised on the accounting treatment of PPE and testing kits.</p>	<p>Audited accounts were updated to recognise the receipt and use of this equipment in 2021/22.</p> <p>In accordance with guidance, an additional £1 million of income and expenditure is disclosed in audited accounts. There was no net impact on Comhairle reserves and balances.</p> <p>Officers determined that all received equipment had been used by the Comhairle.</p>
<p>2. Revaluation of heritage assets</p> <p>The Comhairle's heritage asserts are valued at £2.2 million but have not been formally revalued since 2012. A planned revaluation of paintings and large artefacts has been delayed.</p>	<p>We have accepted the current valuation of heritage assets but expect that a valuation review should be completed.</p> <p>The Comhairle has stated that it will prioritise revaluation in 2022/23.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>

Source: Audit Scotland

25. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise are operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas and transactions with related parties.</p> <p>Consider the need to test journal entries and other adjustments during the period.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Variance analysis of balances and transactions in current and prior year accounts</p> <p>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments</p>	<p>Results & Significant Judgements</p> <p>Controls over journal entry processing are appropriate and operated effectively.</p> <p>Officers involved in financial reporting processes did not identify any unusual activity.</p> <p>Our data analytics-based approach to journal testing ensured that we considered those journals that appeared unusual. No inappropriate journals were identified.</p> <p>Variance analysis of balances and transactions in current and prior year accounts was used to target higher risk areas as part of audit sampling. No errors were identified that required adjustment in the audited accounts.</p> <p>Methodologies and assumptions employed by management in preparing accounting estimates did not significantly vary from the prior year and were consistently applied.</p> <p>Cut-off testing of income and expenditure transactions found no instances where these had been accounted for in the wrong financial year.</p> <p>Testing of accounting accruals and prepayments identified no errors to be adjusted in the audited accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>Conclusion: Audit testing found no errors or other accounting treatment that would indicate management override of controls.</p>
<p>2. Estimation in the valuation of land and buildings</p> <p>The Comhairle held land and buildings with a NBV of £208 million at 31 March 2021. Land and buildings are revalued on a five-year rolling basis.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>A new valuer was appointed from 2021/22.</p> <p>There is a risk that valuations will change significantly in 2021/22 and create material uncertainty over assets not subject to revaluation.</p>	<p>Review the information provided to the external valuer to assess for completeness.</p> <p>Evaluate the competence, capabilities, and objectivity of the professional valuer.</p> <p>Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</p> <p>Review of reports from the valuer to confirm overall asset valuation movements.</p> <p>Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Examine management's assessment of any assets not revalued in 2021/22 against evidence of changes in other revalued assets.</p> <p>Test the reconciliation between the financial ledger and the property asset register.</p> <p>Sample testing of individual asset valuations and lives</p>	<p>Results & Significant Judgements:</p> <p>The information provided to the external valuer was found to be complete and accurate. All land and buildings scheduled to be revalued as part of the rolling programme were subject to revaluation in 21/22.</p> <p>No issues were identified in relation to the competence, capabilities, and objectivity of the professional valuer.</p> <p>An understanding of the valuation process was obtained via a walkthrough. No issues were identified in relation to the controls in place around non-current asset valuations.</p> <p>The valuation report for 21/22 was reviewed. Overall asset valuation movements have been accurately reflected in the 21/22 financial statements.</p> <p>Management exercised appropriate oversight over the valuations provided by the professional valuer.</p> <p>For land and buildings not fully revalued in 21/22, the valuer provided desktop revaluation based on BCIS indices to bring the carrying value of these assets to a fair value.</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>Non-current asset notes in the financial statements were agreed to the property asset register with no errors identified.</p> <p>Testing of individual asset valuations and lives identified no errors.</p> <p>Conclusion:</p> <p>Audit testing found no errors or other accounting treatment that would indicate a misstatement in the valuation of non-current assets.</p>

Other areas of audit focus

26. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. One area of specific audit focus was reported in our Annual Audit Plan:

- Valuation of the present value of promised retirement benefits and the Comhairle's share of the pension asset/liability of Highland Pension Fund.

27. We considered the reasonableness of actuarial estimates on material elements of the valuation using PwC LLP to review actuarial assumptions across Scottish LGPS and the accuracy of information provided to the actuary by the Comhairle and assurances from the auditor of Highland Pension Fund. There were no matters to bring to your attention.

Across the UK, a technical accounting issue has been identified covering infrastructure assets.

28. Infrastructure assets typically include highways, footpaths, bridges, and culverts and are included at depreciated historical cost in the accounts (£94.3 million at the Comhairle). A replaced component of an asset has to be derecognised and at some councils the records of additions do not permit compliance with the accounting code. A failure to derecognise assets correctly would have resulted in double-counting and an overstatement of the gross book value, accumulated depreciation and potentially the net book value of the assets.

29. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book

value of replaced parts of infrastructure assets are £nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

30. The Comhairle has applied both statutory overrides in the 2021/22 audited Annual Accounts.

One unadjusted misstatement has been identified in the 2021/22 accounts

31. Total misstatements identified were £0.9 million.

32. As noted at [Exhibit 3](#) above, some of the Comhairle's operational assets were not scheduled for revaluation in 2021/22, but the Comhairle has reflected fair value of these assets at 31 March 2022 following a desktop exercise.

33. The Comhairle elected to revalue all assets with a carrying value of £0.5 million and above and this resulted in an upwards revaluation of £10.5 million. As assets below £0.5 million were excluded, we calculated the effect of applying this de-minimis. The impact of making an adjustment for this misstatement would be to increase the carrying value of land and buildings by £0.9 million.

34. Management have not adjusted this misstatement in the accounts as they consider it impractical to process revaluations entries on all assets.

35. Total misstatements of £0.9 million did not breach our performance materiality threshold of £1.3 million. We did not therefore carry out additional audit procedures. We have reviewed the nature and cause of this misstatement and have concluded that it arose from issues that are isolated and identified in their entirety and do not indicate further systemic error.

Limited progress was made on prior year recommendations

36. Two of the seven recommendations carried forward from last year are considered to have been completed, with three remaining in progress and two outstanding. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

The Comhairle achieved a surplus of £3.9 million in 2021/22, mainly due to unspent Covid-19 funding (£4.3 million) and departmental underspends (£2.3 million) offset by additional resources allocated during the year

The cost of Covid-19 in 2021/22 was £1.9 million.

Reserves have risen by £12.3 million over the past three years to £31.7 million with £28.2 million currently earmarked for specific purposes

The 2021/22 initial budget assumed savings of £2.3 million and for a small deficit of £0.1 million to be met from reserves

37. In planning its budget for 2021/22, the Comhairle's budget board began considering service options in June 2020. In December 2020, a business plan was agreed which proposed to deliver £3.5 million of savings across a two-year period: £2.3 million in 2021/22 and a further £1.2 million in 2022/23.

38. The Comhairle approved its 2021/22 budget in February 2021. The budget was set at £108.5 million, which was a £1.5 million reduction on the prior year. To balance the budget, the Comhairle planned to make £2.3 million of savings, with a small funding gap of £0.1 million to be met from reserves.

Funding from the Scottish Government increased the budget by £6.5 million

39. Following the setting of the budget, the Comhairle received an additional £4.5 million in redeterminations from the Scottish Government in 2021/22. An additional £2 million of Covid funding was also received to mitigate against lost income and additional costs associated with the pandemic, and to support the Comhairle's continued recovery.

40. £3.7 million of additional resource was added to service budgets and primarily reflects Covid funding not applied to the initial approved budget.

A £3.9 million surplus was achieved

41. The Comhairle achieved an in-year surplus of £3.9 million. This was largely due to £4.3 million of Covid funding remaining unspent at the year-end and carried forward into 2022/23 as an earmarked reserve.

42. Departments also underspent by £2.3 million, with a further £0.8 million in savings from centrally held resources unspent, including £0.24 million of reserves set aside for the pay deal. An additional £0.3 million savings arose from a net transfer into the WISP Lifecycle Fund and loan charges savings.

43. Underspends were offset by an additional £3.7 million Covid funding added to budgets during the year.

44. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant under/overspends against budget

Area	£m	Reason for variance
Underspends		
Covid funding carried forward	£4.3	Covid funding was not included in the initial budget. £4.3 million is carried forward to 2022/23 as an earmarked reserve
Departmental Underspends	£2.3m	Vacancies in key posts. Underspends in services such as Additional Supports Needs (£0.3m), Early Years' Service (£0.3m) and IT service (£0.4m) Underspend on IJB delegated services (£0.5m) Late income from pier premises receipts (£0.2m)
Centrally held resources	£0.8m	Includes £0.3m of centrally held reserves not required to meet the pay deal, £0.2m net transfer of WISP Lifecycle funds plus contingencies unspent (£0.1m)
Additional income/savings	£0.3m	Additional Council tax income (£0.15m) and Loans fund savings (£0.14m)
Overspends		

Area	£m	Reason for variance
Additional resources transferred to services	(£3.7m)	Covid funding added to department budgets following approval of the initial budget

Source: Comhairle nan Eilean Siar 2021/22 Annual Accounts

The Comhairle received £3.0 million Covid funding in 2021/22 and spent £3.1 million

45. The Comhairle received £3 million Covid-19 funding during 2021/22, comprising £2 million general revenue grant funding and £1 million in specific funding.

46. In total, £1.9 million of general Covid-19 funding was spent in 2021/22; £1.3 million to cover additional costs and lost income, £0.3 million on business plan savings not achieved due to Covid, and £0.3 million of recovery funds.

47. £1.2 million of specific covid funding was also used in 2021/22 with most of this being to support education delivery. £0.4 million of Education recovery funding was spent alongside a further £0.3 million on Teaching and Support Staff. The remaining spend was primarily from the discretionary fund (£0.4m).

Planned savings were only partially achieved in 2021/22

48. The 2021/22 budget included planned savings of £2.3 million. Business plans included 53 savings options, of which 39, with a value of £1.8 million, were described as efficiencies.

49. The Comhairle achieved actual savings of £1.4 million (61% of this total). £0.3 million of unmet savings were attributed to the pandemic and funded from Covid reserves, £0.1 million were delayed and expected to be achieved in 2022/23, and £0.5 million were not achieved.

The financial position was effectively monitored

50. We observed that senior management and members receive regular and accurate financial information on the Comhairle's performance against budgets. Quarterly performance reports to service committees include financial performance information, and revenue outturn reports, providing an overview of the Comhairle's performance against budget, is presented to the Policy & Resources Committee for members information. The Comhairle continues to operate with appropriate budget setting and monitoring arrangements.

General Fund reserves have risen by £12.3 million over the past three years to £31.7 million

51. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the body increased from £27.8 million in 2020/21 to £31.7 million in 2021/22.

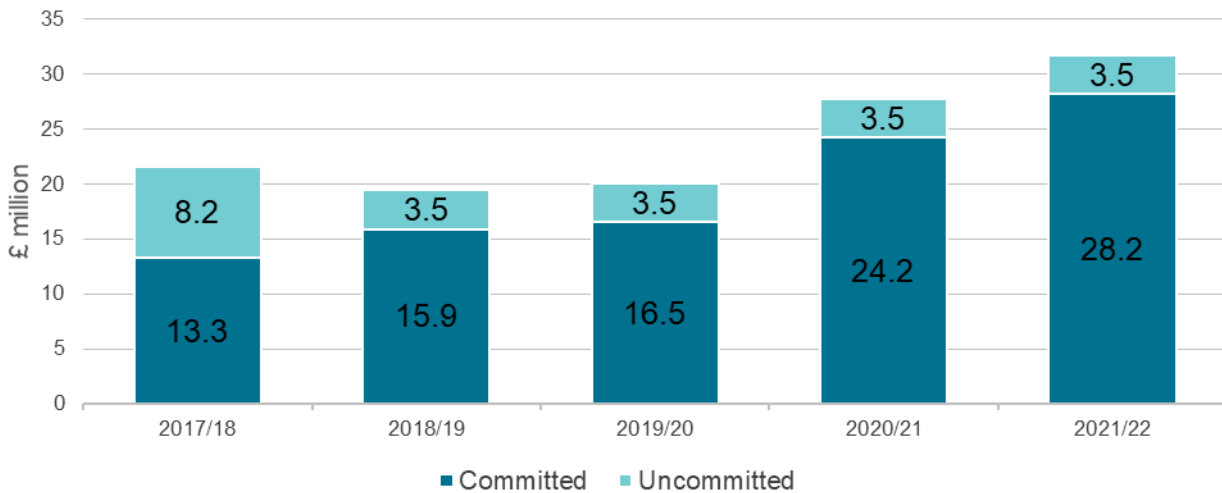
52. General Fund balances have increased in each of the past three years because of late funding (Crown estate funding in 2019/20 and Covid-19 funding in 2020/21 and 2021/22) and departmental underspends. Before 2019/20, the Comhairle had tended to overspend its budget and was using reserves to balance its budget.

53. The Comhairle retains a policy of having a minimum £3.5 million of uncommitted reserves, with any additional balances that are not already earmarked being allocated to support the forward budget strategy.

54. [Exhibit 5](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. At 31 March 2022 the Comhairle holds £5 million earmarked to support the forward budget strategy and an additional £4.4 million Covid-19 funding. The Comhairle has also carried forward £3m in Scottish Government Grants, £2.5 million of departmental underspends, and a further £2 million for various projects.

Exhibit 5

Analysis of general fund balance



Source: CnES Audited Accounts 2017/18-2021/22

Planned savings for 2022/23 have been revised with expected savings being over estimated

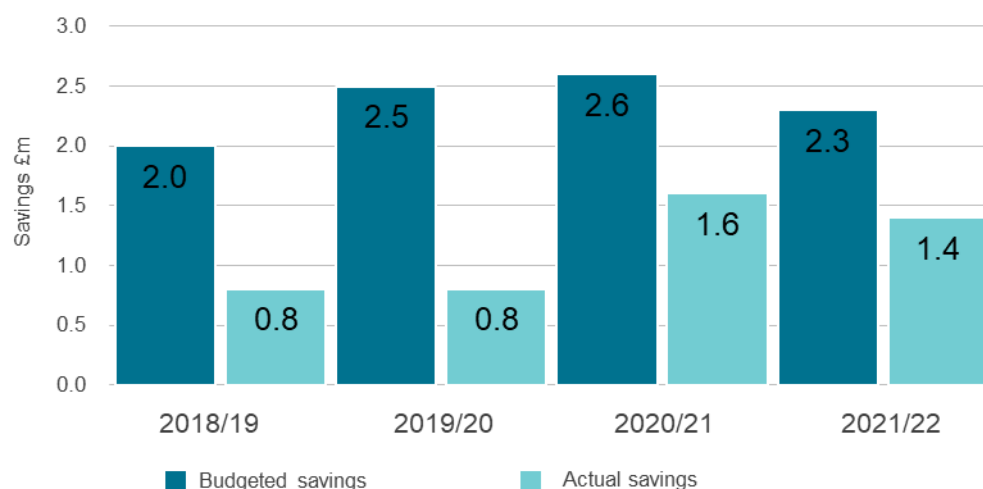
55. In setting the 2021/22 budget, the Comhairle set out how it would make £3.5 savings over a two-year period. £2.3 million of savings were to be achieved in 2021/22 with £1.2 million to be achieved in the second year (2022/23). By June 2021, the Comhairle reported that only around £1.5 million of the initial £2.3 million savings were achievable. This informed a review of planned savings that could be achieved in 2022/23 to support a balanced budget.

56. The Comhairle now plans to make £1.4 million of savings in 2022/23, comprising £0.9 million of the £1.2 million savings initially programmed for 2022/23, £0.2 million of savings delayed from the 2021/22 savings plan, and a further £0.3 million of new saving proposals.

57. As shown in [Exhibit 6](#) below, service redesign savings to be made between 2018/19 and 2020/21 were only partially achieved, due to expected savings being over estimated.

Exhibit 6

Comparison of planned and achieved savings 2018/19-2021/22



Source: CnES Audited Accounts 2018/19 – 2021/22

Capital expenditure was almost £10 million lower than planned with spend reprogrammed for 2022/23 and 2023/24

58. Total capital expenditure in 2021/22 was £28.7 million, £9.7 million lower than the £38.4 million projected spend planned in June 2021. Underspends at Barra and Vatersay (£4.0m) and Lochmaddy Pier (£3.8m) are the principal causes of the slippage. Spend on these projects has been reprogrammed to 2023/24 and 2022/23 respectively.

59. The capital programme for 2022/23 includes works with a cost of £37.2 million. The most significant areas of planned spend are Lochmaddy Pier improvements (£16.7m), Scalpay bridge (£2.5m) and completion works on the Lewis residential care complex at Goathill (£2.1m).

Financial systems of internal control operated effectively

60. Our review of systems of internal controls concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the Comhairle's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

61. Recommendations in respect of minor control weaknesses identified in our review of the system for accounting for PPE were accepted and have been implemented by finance officers.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

62. The Comhairle is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

63. We have reviewed the arrangements and concluded that there are appropriate arrangements for the prevention and detection of fraud, error, and irregularities. This includes our assessment of National Fraud Initiative activity and reporting.

3. Financial sustainability

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

Main judgements

The 2022/23 budget includes planned use of reserves of £0.5 million and savings of £1.4 million

The Comhairle had a combined £3.2 million projected deficit in 2022/23 and 2023/24. However due to higher pay awards and energy cost inflation this has now risen to £8.6m – subject to savings being identified to offset the shortfall

The Comhairle needs to implement a medium-term financial strategy.

The Comhairle approved its 2022/23 budget in February 2022

64. A budget for the financial year 2022/23 was approved by members in February 2022. The Comhairle's total budget of £112.4 million is £4 million higher than the initial budget set for the prior year.

65. The initial settlement for 2022/23 included an extra £2.3 million of Revenue Support Grant funding, including funds to be passed to the Integration Joint Board (£1.7m) and new Education commitments (£0.8m), resulting in a core reduction of £0.2 million for other services.

A budget gap of £2.6 million has been addressed through savings, additional funding, and planned use of reserves

66. In setting a balanced budget for 2022/23, the Comhairle has closed an underlying budget gap of £2.6 million. This was addressed through a combination of business plan savings (£1.4m), additional Scottish Government funding (£0.8m), and planned use of reserves (£0.5m).

A £2.7million deficit for 2023/24 has increased significantly

67. The Comhairle set out financial projections for 2023/24 as part of the budget setting process. The Comhairle had an initial projected underlying deficit for 2023/24 of £2.7 million which has now risen to £5.6 million as a result of a higher pay settlement and energy cost inflation. The deficit for the current and next year is now £8.6 million. In the absence of additional funding or new savings, this will need to be met from reserves.

The Comhairle's 10-year financial projection predicts a £16 million deficit by 2032/33 before savings are identified

68. The Comhairle updates its financial projections each year. The 10-year financial projection makes a number of broad assumptions about future income and expenditure, including the following current assumptions:

- flat cash General revenue grant funding
- flat cash NDR income for five years, followed by 2% annual uplifts
- 3% increases in Council Tax income per year
- 2% increases in staff costs (including teachers) and premises costs per year
- 2% increases in service income per year

69. Based on the Comhairle's assumptions, the projected deficit by 2032/33 has risen from £11.0 million to £16 million before savings are identified.

A medium-term financial plan is required to support financial sustainability

70. The Comhairle's financial sustainability was assessed as part of the Best Value Assurance Report (BVAR) presented to the Accounts Commission in September 2022. This report noted the absence of a medium-term financial strategy and recommended that this should be implemented and linked to the Comhairle's other strategies for workforce and asset management.

71. The Comhairle continues to operate without a Director for Assets, Finance and Resources. As noted in the BVAR, appointing a director of finance to oversee the Comhairle's strategic financial plans must be addressed as a priority. This should permit the Comhairle to establish how it will address the long-term financial deficit it currently projects.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

We investigated and reviewed some governance issues in 2021/22.

The Comhairle responded positively to any issues identified and made necessary changes

The Comhairle has reviewed its committee structure, senior management team structure and constitutional documents

The Comhairle still needs to appoint a new Director of Finance

The committee structure has been revised and new elected members appointed following May 2022 local elections

72. Following local authority elections in May 2022, 10 new members were appointed to the Comhairle, with a total of 27 elected members appointed to the Comhairle's committees at their first sittings following the May election.

73. Two female councillors were elected, following a term with no female elected member representation. The final two elected members were appointed in June 2022 following a local by-election to fill two uncontested seats.

74. A revised committee structure was approved by members in March 2022. The number of service committees reduced from four to three, with the Communities and Housing committee disestablished. Responsibilities for housing and homeless services transferred to the Sustainable Development committee.

75. In June 2022 the constitution of a new Social Work and Social Care Board was approved, with responsibility for Health and Social care policy and the Comhairle's relationship with the Western Isles IJB within its remit.

Organisational restructuring has taken place in 2021/22

76. A consultation on organisational structures was carried out in the autumn of 2021. This considered 12 proposals including changes to senior posts under a new structure.

77. In April 2022 members of the Policy and resources committee approved a number of recommendations, including arrangements for a revised Senior Management Structure. The Comhairle has had issues recruiting to some key posts and therefore agreed to implement plans for an interim period to mid-2024.

78. Amongst the key changes agreed are:

- the Director for Communities transfer to the Chief Executive's Department with a new designation of Depute Chief Executive
- the Department for Communities is disestablished
- the Corporate Workforce Plan will be reviewed; and
- a programme of enhanced leadership training will be developed

Exit package costs have increased significantly due to organisational restructuring

79. The cost of exit packages reported in annual accounts has risen significantly as the Comhairle pursues organisational restructuring. Exit package costs rose from £0.4 million in 2020/21 to £1.5 million in 2021/22, as a result of a Voluntary Early Retirement offer to staff as part of the budget savings exercise.

80. All exit packages were approved in accordance with the Comhairle's early retirement policy.

The Comhairle needs to appoint a new Director of Finance

81. The former Director for Assets, Finance and Resources left his post in January 2021. The Comhairle subsequently advertised the vacant post on two occasions but were unable to make an appointment.

82. The job description for the Director of Finance role has been subject to review and following approval by the Human Resources sub-committee the position has now been advertised.

We have investigated and reviewed governance arrangements in response to correspondence received during the year

83. In 2021/22, we received correspondence and were advised of governance matters that were subsequently investigated and reviewed. These included the following areas, with our judgements identified in the paragraphs below:

- Internal Audit access to files
- Depute monitoring officer position
- Publication of agendas for the HR subcommittee
- Council-tax setting and approval

Internal Audit access rights have been reviewed and reinforced

84. In his 2021/22 Annual Report and Assurance Statement, the Chief Internal Auditor noted that improvement is required over the rights of access by Internal Audit to the Comhairle's documentation and files. Management have since considered this issue, taken appropriate legal advice, and reinforced the principles of access necessary for Internal Audit to function independently and effectively.

The Comhairle has acted to remove any potential conflict with the role of deputy monitoring

85. In June 2019, the Comhairle appointed a new deputy monitoring officer and approved the continuation of the Chief Executive in the role. There were therefore two deputy monitoring officers including the Chief Executive.

86. The 1989 Act does not explicitly prevent the Chief Executive from simultaneously being a deputy monitoring officer. However, this does present a potential conflict-of-interest risk as monitoring officer and head of paid service, which might affect the provision of independent legal advice.

87. As part of our investigation, the Comhairle confirmed that proposals for the appointment of both deputy monitoring officers came from the Comhairle's Monitoring Officer and we obtained assurances from the Chief Executive that he had never operated in the role of Deputy Monitoring Officer since his initial appointment and that a conflict-of-interest had not arisen. The Comhairle has considered the potential risk raised and the Chief Executive stood down as Deputy Monitoring Officer with effect from 17 March 2022.

The Comhairle did not publish an agenda for meetings of the HR sub-committee between 2017 and 2022

88. Agendas for meetings of the HR subcommittee have not been published on the Comhairle website since 2017. The monitoring officer reviewed this arrangement and noted that the agenda was available for inspection by the public as required by law, but in the interests of transparency it could also have been published on the Comhairle's website. In future, agendas will be published, redacted as necessary.

Setting of council tax as part of 2021/22 budget setting complied with legislation

89. We investigated concerns raised that the Comhairle was not complying with legislation and their own constitutional framework in setting council tax bandings for 2021/22. These note that it is a requirement that decisions on budget setting are approved by the Comhairle and not by a committee of the Comhairle.

90. We are satisfied that council tax setting was carried out in accordance with legislation.

Governance assurances were prepared by all services

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

92. Returns were submitted for all services in 2021/22.

The Code of Corporate Governance was reviewed in 2021/22

93. The Comhairle carries out a review of its governance arrangements in June each year. In 2022, the Audit and Scrutiny Committee reviewed the Comhairle's Code of Corporate Governance. The 2022/23 action plan includes a new action to continue the community conversations that took place in 2021/22 on budget strategy.

Constitutional documents have been reviewed in 2022

94. The Comhairle has a policy of reviewing constitutional documents prior to local government elections. Incoming members then have the option to adopt these or make further changes to reflect their own. A member-officer working group (MOWG) was set up to take this forward.

95. In December 2021 and March 2022, meetings of Audit and Scrutiny approved revisions to a number of documents, including:

- financial regulations
- contract regulations
- standing orders
- scheme of administration
- scheme of delegation

The Risk Management Policy & Strategy has been revised

96. The Comhairle's revised Risk Management Policy and Strategy was approved in September 2022. The Comhairle's Risk Management Group and Best Value Action Planning Group have merged as part of ongoing activity to support increased collaboration between the disciplines of Risk Management and Performance Management at the Comhairle.

97. Changes in procedures have included increasing the frequency of meetings with the group now meeting after each committee series. Going forward, the Comhairle aims to merge performance and risk reporting – with reporting on strategic outcomes showing the risks, performance actions and KPIs linked to the outcome.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Elected members must provide leadership and oversight over clearer strategic priorities

Strategic workforce and asset management planning is required

The BVAR for the Comhairle was published in September 2022

98. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this period.

99. The BVAR report for the Comhairle was published in September 2022 and noted that elected members must provide leadership and clear priorities if the organisation is to improve public services and address significant financial and workforce challenges. The report made nine recommendations for improvement:

- The Comhairle should identify clear and specific overall priorities and actions for taking forward its vision.
- Elected members should ensure they provide strategic oversight and challenge to progress the Comhairle's vision and priorities.
- The Comhairle should develop medium- to long-term financial planning and strategic workforce and asset management planning.
- In developing capital projects, including its community hub proposals, the Comhairle should ensure projects are supported by robust business cases and that lessons are learned from the Goathill project in areas such as funding and resourcing.
- The Comhairle should improve its process for identifying and realising savings opportunities, including opportunities from cross-council and partnership working. It should ensure that opportunities for digital efficiencies are fully explored.
- The Comhairle and partners should develop the LOIP alongside a clear performance management framework to deliver achievable shared outcomes.

- The Comhairle should develop ongoing training opportunities for members and officers, including making equalities training mandatory for all staff and increasing members' uptake of training.
- The Comhairle should develop and communicate its area working arrangements more clearly, building on the good practice already in place.
- The Comhairle should improve communications throughout the council, including communicating the Comhairle's priorities.

100. The Commission requested a report on the progress made by the Comhairle no later than April 2024.

The Comhairle complied with the Accounts Commission's 2018 Direction

101. The Comhairle continued to meet its responsibilities for reporting performance in public in 2021/22. Quarterly service performance reports are published on the Comhairle website, and the Comhairle's Annual Public performance report was published in March 2022 in accordance with reporting guidelines.

National performance audit reports

102. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. (NEW) Heritage assets</p> <p>The Comhairle has heritage assets with a value of £2.2 million on its balance sheet. Many assets have not been subject to revaluation since 2012. A review of the valuation process for heritage assets has been delayed.</p> <p>Risk – the value of heritage assets disclosed on the balance sheet may not be a true reflection of their current market value.</p>	<p>The Comhairle should carry out the planned review of the valuation process for heritage assets and set out a clear valuation policy.</p> <p>Exhibit 2</p>	<p>Agreed. This is a specialist area and will work in conjunction with the Heritage Service to identify appropriate advice and/or consultancy for this task</p> <p>Principal Accountant</p> <p>March 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Capital programme</p>	<p>A capital programme review should be undertaken to identify areas of optimism bias and inform the 2023-2028 capital programme</p> <p>Head of Accountancy and Exchequer Services</p> <p>June to December 2022</p>	<p>In Progress</p> <p>Work has begun on the 2023-28 capital programme following the May elections.</p> <p>There is an opportunity to learn from the causes of slippage in the current programme and produce a more realistic and achievable capital programme for the next five-year period</p> <p>Due to funding cuts this will be a reduced programme,</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>with the main slippage projects carried forward. Inevitably, there will be continued slippage on one of these, but it will be factored into the programme.</p> <p>Chief Financial Officer February 2023</p>
<p>b/f 2. Savings targets in 2021/22 and 2022/23</p>	<p>The planned savings for 2021/22 and those assumed to be achievable in 2022/23 should be re-assessed to determine whether they are realistic</p> <p>Head of Accountancy and Exchequer Services</p> <p>Ongoing</p>	<p>Complete</p> <p>Planned savings have been revised on a quarterly basis as part of monitoring reports to Audit & Scrutiny.</p>
<p>b/f 3. Lews Castle Investigation</p>	<p>The findings and recommendations from the Internal Audit report should be addressed. A way forward should be found that respects both the need for members making informed decisions and the freedom for the chief executive to act within the Scheme of Delegation. The Comhairle should consider the value of utilising the Audit Scotland 'Your Reputation @ Risk' survey to assess officer's and member's awareness of conduct and other governance policies.</p> <p>Chief Executive, Section 95 Officer, and Monitoring Officer</p> <p>30 April 2022</p>	<p>In Progress</p> <p>3 of 14 IA findings had been completed by January 2022. Several other recommendations are substantially completed but are yet to be formally concluded as complete by Internal Audit.</p> <p>A report, which should address the remaining items will be completed by the end of the calendar year for consideration by Audit and Scrutiny Committee.</p> <p>The Comhairle launched business conduct training in January 2022, as an alternative to our YR@R survey. Almost 300 employees have received the training thus far.</p> <p>Chief Executive March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
b/f 4. Business Continuity Plans	<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>Organisational Strategy Manager February 2022</p>	<p>In progress</p> <p>The Corporate Business Continuity Plan was approved in December 2021.</p> <p>in 21/22 services were required to prepare BCP's as well as having their business plans approved as part of budget setting arrangements. 6 of 12 BCP's were prepared on time. The Finance and Risk Management Officer will assist departments with the completion of outstanding business continuity plans.</p> <p>Work has commenced on revised BCP's, which will be submitted to committees alongside the budgets in February</p> <p>Head of HR and Performance February 2023</p>
b/f 5. IT business continuity plans	<p>Cyber Resilience and Disaster Recovery Plans should be finalised and approved by members.</p> <p>IT Manager September 2022</p>	<p>Outstanding</p> <p>Cyber resilience and disaster recovery plans remain outstanding.</p> <p>Competing priorities and loss of key staff, who are still to be replaced, has meant that these two plans have not been completed.</p> <p>IT Manager September 2023</p>
b/f 6. SPI milestones	<p>Departments should now set achievable milestones to assess progress towards meeting targets for prioritised performance indicators</p>	<p>Substantially complete</p> <p>Covering papers for quarterly service performance reports feature a section on prioritised SPI's where local</p>

Issue/risk	Recommendation	Agreed management action/timing
	Organisational Strategy Manager December 2021	targets have been set. For almost all priority SPI's, milestones have also been set.
b/f 7. Procurement training	Procurement training should be rolled out to services to ensure that policies and procedures are followed. Legal and Procurement Manager March 2022	Outstanding Due to a staffing vacancy, it has not yet been possible to carry out this training. A Senior Procurement Officer post and Procurement Officer posts have now been filled. Training to be delivered by the end of the financial year. Head of Law and Governance/Senior Procurement Officer March 2023

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £85,000 and request they be corrected.

The table below summarises uncorrected misstatements that were identified during our audit testing and have not been corrected by management. This error is below our performance materiality level. We are satisfied that this error does not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. Gain on revaluation of land and buildings		900		
Carrying value of land and buildings			900	

Notes:

Entry 1 relates to the impact of revaluation of land and buildings with a carrying value of less than £500,000 that was not applied in 2021/22.

Appendix 3. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Comhairle nan Eilean Siar

2021/22 Annual Audit Report

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