Orkney Islands Council

Annual report on the 2013/14 audit

Prepared for the members of Orkney Islands Council and the Controller of Audit

October 2014

Contents

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Key messages

Financial statements	• Unqualified auditor's report on the 2013/14 financial statements.
Financial position	• The council reported a breakeven against its service budgets. • Usable reserves have decreased by £1.990 million to £223.997 million • The General Fund balance has reduced by £1.149 million to £23.768 million, of which £8.627 million is unallocated. • Effective financial management and budget setting process in place.
Governance & accountability	• The council had sound governance arrangements in place. • Systems of internal control operated effectively. • The council has an effective internal audit function and sound anti-fraud arrangements. • The Community Planning Partnership has made limited progress in driving important strategic issues.
Best Value, use of resources & performance	• The council continues to develop a more robust framework for monitoring and reporting performance against strategic priorities. • The council's annual performance report covering 2013/14 is due to be published early in 2015.
Outlook	• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective partnership working will be essential to make the best use of available resources as well as continued strong governance and leadership.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Orkney Islands Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of the two charities registered by Orkney Islands Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
3. The council recorded a breakeven against its revised service budgets of £80.704 million in the year. This budget had been increased by £0.597 million during the year. This was largely due to additional funding being received via the gross revenue grant from Scottish Government during the year.
4. Financial management remains effective with regular budget monitoring and reporting to members.

Financial position

5. The closing balance at the year end on usable reserves was £223.997 million, representing a net decrease of £1.990 million from 2012/13.
6. The net movement in the general fund balance for 2013/14 was £1.149 million, reducing the general fund balance to £23.768 million as at 31 March 2014. This balance is made up of earmarked commitments of £15.141 million and an unallocated balance of £8.627 million, or 9.87% of net cost of services. This is in line with the council's policy of holding minimum unallocated reserves of around 10% of net service cost.
7. The council also has a Strategic Reserve Fund which holds investment returns from surplus funds relating to harbour dues from oil tankers loading at the Flotta Oil Terminal and previous marine services and disturbance payments. The balance on the fund at the end of the year was £196.784 million.
8. The council's 2014/15 financial plan requires cost savings of £1.327 million. The council aims to deliver these savings through specific service initiatives.

Governance and accountability

9. In 2013/14, the council had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. The council had an effective internal audit function and sound systems of internal control.
10. A joint initiative with NHS Orkney has been in place for a number of years and both partners have recently agreed to adopt a body corporate approach for the integration of health and social care services from April 2016.

Best Value, use of resources and performance

11. The council has had a strong focus on performance management during 2013/14 and has developed a sound framework for monitoring and reporting performance against its priorities.

12. During 2014 an audit of Orkney's Community Planning Partnership (CPP) was carried out by Audit Scotland and its scrutiny partners. The overall aim of the audit was to assess the effectiveness of community planning in making a difference to local communities. The audit fieldwork was undertaken in May 2014 and the final audit report will be published in November 2014.

Outlook

13. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

14. This report is a summary of our findings arising from the 2013/14 audit of Orkney Islands Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

15. Our responsibility, as the external auditor of Orkney Islands Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

16. The management of Orkney Islands Council is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

17. This report is addressed to the members of Orkney Islands Council and the Controller of Audit and should form the basis of discussions with the Monitoring & Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

18. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

19. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Orkney Islands Council.

20. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

21. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

22. We recognise that not all risks can be eliminated or even minimised. What is important is that Orkney Islands Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

23. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

24. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Original net service budget expenditure £80.107m

Service Outturn £80.704m

Service Budget Overspend £0.597m

Planned capital expenditure £37.4m

Outturn Capital Spend £28.2m

Capital Underspend £9.2m

Planned usable reserves £221.894m

Outturn usable reserves £223.997m

Movement in usable reserves £1.99m

Savings target £1.1m

Savings achieved £1.1m

Audit opinion

25. We have given an unqualified opinion that the financial statements of Orkney Islands Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

26. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

27. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

The audit of charities financial statements

28. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

29. Orkney Islands Council had two funds which were subject to the full charities financial statements audit for 2013/14: the Orkney Islands Council General Charitable Trust and Orkney Educational Trust.

30. Auditors of registered charities' statement of accounts have responsibilities to:

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

31. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charities registered by Orkney Islands Council.

Group accounts

32. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.

33. Orkney Islands Council has accounted for the financial results of two subsidiaries and two associates in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to reduce total reserves and net assets by £2.129 million.

34. The net assets of the group at 31 March 2014 totalled £485.4 million, compared to £455.2 million in 2012/13. The positive movement in the closing net worth balance is mainly due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of the pension liabilities of Police and Fire from the council's group accounts.

Accounting issues arising

Presentational and monetary adjustments

35. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase group comprehensive income by £0.584 million and increase group net assets by £0.052 million. The more significant change related to:

- £1.555 million reduction in depreciation due to a systems error in the Logotech asset management system
- £0.971 million increase in expenditure due to a number of items being omitted from the group consolidation in error.

36. In addition, a small number of other unadjusted errors were identified during the course of the audit, where if adjustments had been made these would have reduced the surplus for the year by £0.092 million and reduced net assets by the same amount.

37. The council does not as yet have a contingency plan in place in relation to landfill/quarry sites. Some of these may have specific restoration responsibilities as part of the Scottish Environmental Protection Agency (SEPA) licences.

38. Any anticipated future costs of restoring land associated with waste disposal sites and quarries could require a contingent liability to be included in the accounts. The timing of any liability is uncertain and the associated costs cannot be reliably estimated at this time.

39. Orkney Islands Council lease a number of properties from other organisations. During our audit we noted that six additional leases, valued around £0.3 million, had been added this year, however, the leases had been in place since 1996-1998. These were not material to the accounts and all related to Crown Estate leases. Whilst the majority of leases are managed by the Estates Department it was recognised that a number were managed by other departments e.g. Marine Services. The identification of the additional six leases was part of an on-going review to get a complete record of all council leases.

40. As part of the final accounts audit we review the level of debts written off in the year. We noted a loan of £11,400 from the Strategic Reserve Fund to a company that had since folded had been approved for write off by the Head of Finance. However, the scheme of delegation required the chair/vice-chair of the relevant committee to be consulted in this situation. No consultation took place. In discussions, officers advised us that the company had gone into liquidation and there was therefore no possibility of recovery of the outstanding loan.

41. Council dwellings are revalued every 5 years. The current basis of valuation is existing use for social housing (EUV-SH). The council's policy is to write off the revalued amount over the useful life of the new housing stock which is expected to be 50 years. The Code of Practice for Local Authority Accounting permits this length of write off period but it also sets out expectations in respect of component accounting which is commonly adopted by councils to separately account for elements of an asset which require to be written off over a shorter period. The council's componentisation policy is triggered when a separate asset exceeds £0.5 million but currently no account is taken of the estimated life of the asset which means there is little use of componentisation. As the amount involved is likely to be below the audit materiality level, no adjustment was proposed for 2013/14 however, we would suggest that the write off period for council dwellings is higher than expected and therefore depreciation is low and the council may wish to revisit this approach.

Whole of government accounts

42. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. Following a change to the certification threshold in 2012/13, the council's WGA return is no longer subject to audit.

Report to those charged with governance

43. We presented our report to those charged with governance (ISA 260) to the Monitoring & Audit Committee on 25 September 2014. The primary purpose of that report is to communicate the significant findings arising from our audit of the financial statements prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs:

44. Audit testing found an error in the calculation of depreciation in the unaudited accounts which had resulted in a number of assets showing negative net book values. Discrepancies were found between the audit calculation and the system calculation for depreciation in a significant number of assets on the asset register with some being overstated and others understated. The issue had been caused by a software error in the Logotech asset register. The system provider acknowledged the error and calculated a revised figure of £13.074 million which was £1.555 million lower than the balance in the accounts presented for audit.

45. The revised *system generated* depreciation figure was £0.034 million higher than officers' manual calculation. The £0.034 million was not included in the unadjusted errors as it was not possible to confirm whether the difference was indeed an error. In addition, as a result of this change in the depreciation charge for the year it was also expected that depreciation written back as a result of revaluation would change. However, this did not happen and the revaluation gain was therefore understated by £0.045 million. This is part of the unadjusted

errors referred to at paragraph 36.

Refer Action Plan Point 1

46. There were a number of figures in the unaudited group Comprehensive Income and Expenditure Statement (CIES) which could not be agreed to the original supporting papers provided. These were highlighted to officers and amended figures were provided to us in an updated set of accounts on 17 September 2014. Whilst the majority of the revised figures were as expected, the updated accounts highlighted further discrepancies between the group CIES and balance sheet. Resolving these discrepancies involved significant officer and auditor time and resulted in a delay in concluding the audit of the council's accounts.

Refer Action Plan Point 2

47. In 2009 the council transferred land valued at £0.4 million to the care facility project. This land transferred from investment assets to assets under construction in the balance sheet. The project was subsequently abandoned in 2013 and the land was moved back to investment assets. The "transferred" land was part of a larger plot which had been subject to revaluation over the years. Audit testing found that the whole plot had been revalued and not just the element that remained in investment assets. As a result revaluation gains or losses over the intervening years were overstated and a prior period adjustment of £0.4 million was made to correct the overstatement of revaluation gains/losses in prior years.

48. The council incurred costs of £0.429 million in respect of professional fees for the care campus facility. In the unaudited accounts these were treated as a 'disposal' but there was no physical property to dispose of or scrap. Such amounts should normally be treated as impairment and an adjustment was made to properly reflect this in the audited accounts.

49. The former Kirkwall Grammar School had been demolished and the site turned into playing fields/sports pitches for the new school. The value of the demolished building and the land was treated as a disposal however the land, calculated at £1.1 million, should have been included as part of the new asset and a correction was made to the audited figures to reduce the loss on disposal of £1.1 million from the comprehensive income and expenditure account and decrease the revaluation gain on this asset by the same amount.

50. The council has two charities registered with OSCR, each requiring a separate auditor’s report this year – the Orkney Islands Council General Charitable Trust and Orkney Education Trust. The latter has been in place for a number of years and has been subject to independent examination of accounts by the council's external auditors in previous years. The Orkney Islands Council General Charitable Trust was established in December 2013 when the previous council trusts registered with OSCR were subsumed into this new trust. The previous trusts which formed the new General Charitable Trust

had also been subject to independent examination in previous years. The unaudited accounts for both trusts referred to these being prepared on a receipts and payments basis. However, audit work identified accruals in the statements and the audited accounts were subsequently shown on an accruals basis.

Outlook

51. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities
- IAS 28 Investments in associates and joint ventures.

52. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.

53. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Monitoring & Audit Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Monitoring & Audit Committee by 30 September with publication on the council's website, along with the auditor's annual report for the year, by 31 October.

54. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.

Financial position

55. The council's financial statement reported a deficit of £0.062 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the council decreased its general fund balance by £1.149 million.

56. The council's original budget for the year, approved on 7 February 2013, was £80.107 million. This was subsequently increased to £80.704 million, an increase of £0.597 million (0.7%) following receipt of additional gross revenue grant from Scottish Government. The council's financial regulations paragraph 3.6.2 states that "The Chief Executive and Executive Directors may not incur expenditure in any financial year that cannot be met from the *approved* revenue or capital budget, except in accordance with the scheme of virement". The increases made to the original approved budget are reported to the Policy & Resources Committee but are not formally approved.

Refer Action Plan Point 3

57. As a result of the increases in the year, the council reported a breakeven position against the revised budget for the year.

58. The 2013/14 approved budget included a planned contribution from the Strategic Reserve Fund of £4.093 million. The actual level of contribution from the fund was £9.2 million. This was due to the prior approval of a £5.1 million contribution to the schools project.

59. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council decreased by £1.99 million compared to the previous year and totalled £223.997 million.

Exhibit 1: Usable reserves

Description	31 March 2013 £ million	31 March 2014 £million
General Fund	24.917	23.768
Capital Fund	0.508	0.508
Housing Revenue Account	0.000	0.000
Capital Receipts Reserve	0.077	0.020
Repair & Renewal Fund	2.939	2.917
Harbour Reserves	197.546	196.884
Total Usable Reserves	**225.987**	**223.997**

Source: Orkney Islands Council 2013/14 financial statements

60. From an analysis of Scottish councils' unaudited 2013/14 accounts, over half of all councils utilised reserves brought forward to support their financial position and deliver service priorities, ending 2013/14 with lower levels of reserves than they had at the start of 2012/13. This was in part due to the retention of certain reserves associated with police and fire joint boards and the consequent reduction in gross revenue grant from the Scottish Government in 2013/14.

61. The balances held by the council are discussed by members as part of the regular budget monitoring processes. By definition the useable reserves, with the exception of the general fund, are earmarked for specific purposes. The use of balances for earmarked purposes has been agreed with members.

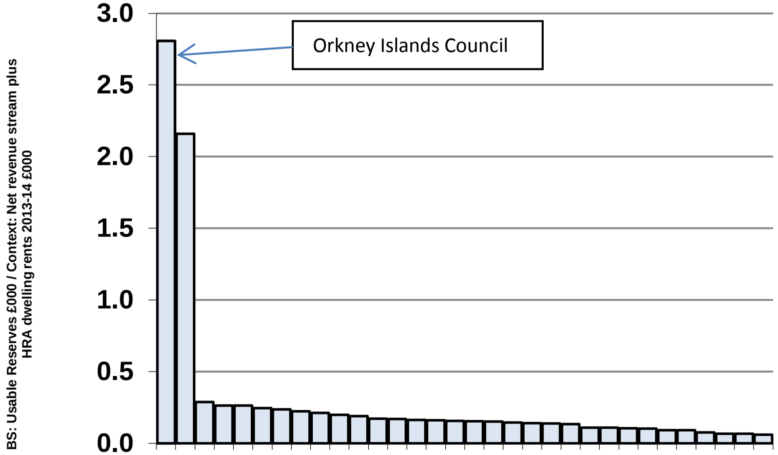
62. The general fund balance at 31 March 2014 is made up of earmarked commitments of £15.141 million and an unallocated balance of £8.627 million or 9.9% of the annual running costs (2012/13: 9.9%). This position is in line with the council's policy which is to maintain uncommitted reserves at approximately 10% of annual running costs. The general fund balance reduced by £1.149 million during the year.

63. The most significant earmarked balances include:

- Spend to Save Fund – £1.704 million
- Renewable Energy Fund – £4.983 million
- Development Grants Fund – £2.391 million
- Pathfinder Project Fund – £1.537 million
- Outwith Orkney Placements Fund – £1.874 million
- Various others - £2.652 million.

64. The council's usable reserves position in relation to its net revenue stream for the year in comparison to other Scottish councils is very healthy as can be seen from Exhibit 2 below. The median level of total usable reserves for all local authorities was approximately 15% of net revenue stream plus dwelling rents. Orkney Islands Council had 280%, largely due to the Strategic Reserve Funds (SRF) held by the council. This is a cash-backed investment fund established under the Orkney County Council Act 1973 and holds investment returns from surplus funds relating to harbour dues from oil tankers loading at the Flotta Oil Terminal and previous marine service and disturbance payments made by the terminal operators. The balance on the fund at the end of the year was £196.784 million.

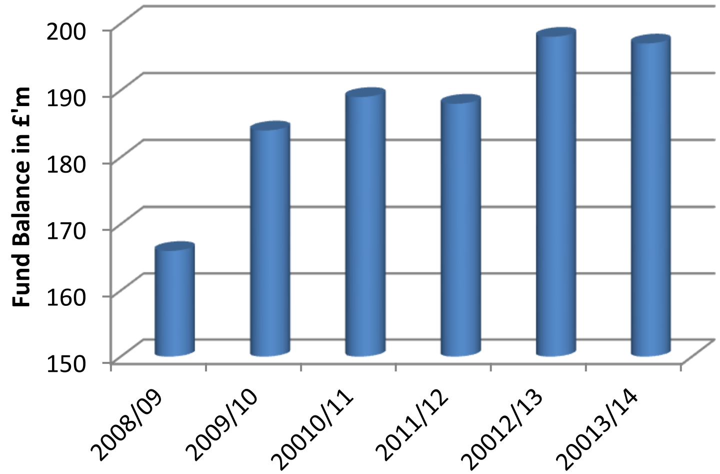
Exhibit 2: Usable Reserves as a proportion of revenue



Source: Local Government Draft Accounts 2013/14

65. As can be seen from Exhibit 3 the SRF investments have performed well in recent years and the balance held has generally increased after taking account of any funds transferred to support specific aspects of the revenue budget. This gives the council a cushion against the on-going financial constraints on public sector spending.

Exhibit 3: Strategic Reserves Fund Balances 2008-2014



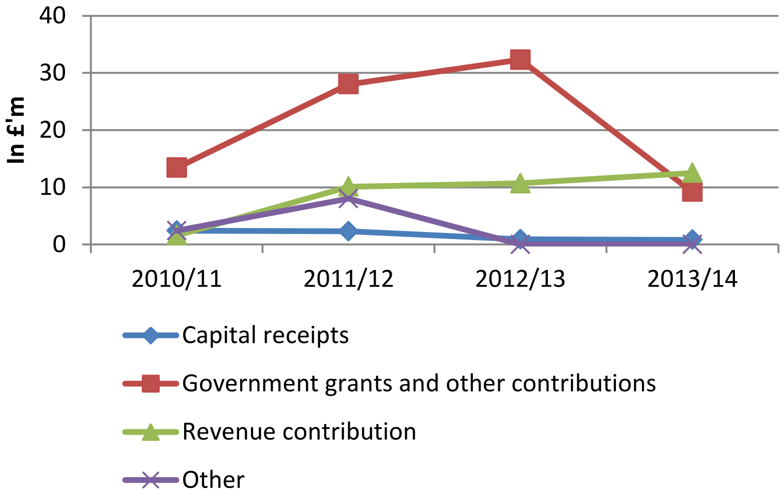
Source: Orkney Islands Council Annual Accounts 2008/09 to 2013/14

Capital investment and performance 2013/14

66. Total capital expenditure for 2013/14 was £28.2 million. Investment during the year included £6.3 million for the new Kirkwall Grammar School, £2.5 million for Hatston Pier work, £6.3 million on Copland’s Dock and £1.5 million on Stromness Pierhead Regeneration.

67. Expenditure in 2013/14 was significantly less than previous years largely due to completion of the council house build and new schools programmes during 2014. Sources of finance for the capital programmes in recent years have largely been funded by government grants and other contributions, revenue contributions and capital receipts as shown at Exhibit 4 below :

Exhibit 4: Sources of finance for capital expenditure 2010/11 – 2013/14



Source: Orkney Islands Council Annual Accounts 2010/11 to 2013/14

68. The council reported a £9.2 million (24.6%) underspend against the total capital programme for 2013/14. The council's existing methodology for capital expenditure includes phasing capital spend over the number of years it is expected individual projects will take to complete. However, overly optimistic timescales and limited resources to tackle multiple projects at the same time can result in the capital programme not being completed as planned. This has resulted in an on-going underspend on capital expenditure in recent years.

Refer Action Plan Point 4

Treasury Management

69. High levels of debt may reduce a council's budget flexibility as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.

70. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. Orkney Islands Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £37 million while net borrowing was £28 million, lower by £9 million.

71. The council's level of borrowing in 2013/14 remained the same as 2012/13. Its net external debt as a proportion of net revenue spend continues to remain low relative to other Scottish councils. At 31 March 2014 the council had total borrowings of £40.450 million including £0.450 million of accrued interest (2012/13 £40.450 million), £10 million of this becomes payable in 2014/15. There has been no restructuring of borrowing during the year.

72. In the continuing period of economic instability the return on investments remain high and the council received £13.44 million in investment income this year (2012/13 £13.417 million). This is subject to considerable fluctuations depending on market conditions.

73. The fair value of the council's short term investments rose from £166.539 million to £174.075 million in the course of the year.

74. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

Outlook

75. In February 2014 the council approved its budget for 2014/15. The net service expenditure budget set for 2014/15 is £80.717 million, an increase of 0.8% on 2013/14 (£80.107 million). In setting its revenue budget the authority identified the need for savings of £1.327 million.

76. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

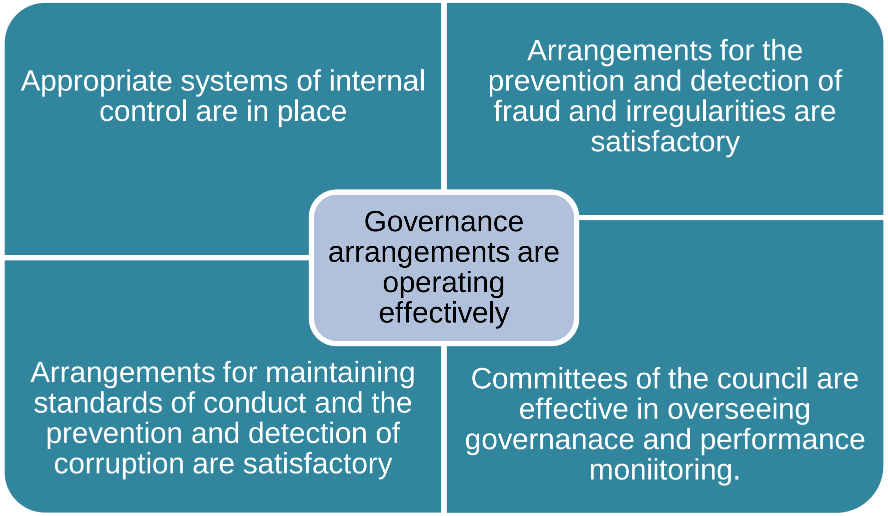
77. To date all council services have had to find additional efficiency savings within their approved budgets to cover the impact of cost price increases. Most general fund services continue to deliver significant underspends against their budgets which indicates that the council has some scope to continue with this approach. However, the council recognises that any further spending reductions need to be considered in a more strategic manner over the medium to long-term given the requirement for continued and significant budget reductions.

78. Our 2012/13 annual audit report highlighted that the council does not have a long term financial strategy in place. In response to this, a change programme team was established to deliver an integrated medium-term resource strategy incorporating Finance, HR, Asset Management and ICT strategies. The programme team is tasked with developing a range of options for change which will deliver recommendations for cost reductions and improvements through changes in business processes, efficiencies and better use of technology and innovation. This will be done in collaboration with services and other stakeholders. The change programme this will be the main vehicle to identify and deliver savings from 2015/16 onwards. However, there is still no long term financial strategy in place.

Refer Action Plan Point 5

79. The latest reported financial position for 2014/15 showed a General Fund overspend of £0.657 million along with actions being taken to achieve a balanced budget for the year.

Governance and accountability



80. Members of the council and the Chief Executive are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Orkney Islands Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

81. The corporate governance framework within Orkney Islands Council is centred on the council which is supported by the following standing committees.

Policy & Resources

Development and Infrastructure

Education, Leisure & Housing

Orkney Health & Social Care

Monitoring & Audit

82. Based on our observations and audit work our overall conclusion is that the governance arrangements within Orkney Islands Council are operating effectively.

83. The council's two charitable trusts are governed by trustees. We noted that there had been no trustee meetings during the year, nor for a number of years prior to this. It is therefore unclear how trustees are able to adequately demonstrate proper stewardship of the funds.

Refer Action Plan Point 6

Internal control

84. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll, general ledger,

banking, trade payables, trade receivables, treasury management, benefits, non domestic rates, council tax, housing rents and capital accounting. Our overall conclusion was that the key controls within the council's main financial systems operated satisfactorily during 2013/14.

Internal audit

85. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.

86. Our review of internal audit concluded that the internal audit service generally operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit in two accounting systems: council tax and travel & expenses.

ICT audit

87. During 2013/14 we carried out a follow up review on our 2012/13 report on the council's information technology service which covered the following areas: ICT strategy, organisation structure, service delivery, business continuity, asset protection, data networking and installation management.

88. The findings detailed in the initial report required considerable work to be carried out by the IT service. However, similar to all local authorities in Scotland, Orkney Islands Council was advised in the summer of 2013 that it had to make significant changes in its computer networking infrastructure to meet the requirements of the Public Services Network (PSN).

89. For the first time in 2012/13, councils had to apply to connect to the PSN to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non compliance issues.

90. At the time of our follow-up review, the new network architecture for PSN had been approved by CLAS certified consultants and work was ongoing to implement the new security infrastructure which would allow compliance to be achieved. Re-accreditation for PSN is taking place towards the end of 2014 and the overall cost of the work was estimated at around £324,000 in 2013/14 and a further £358,000 in 2014/15. Of this, around £225,000 has been spent on

upgrading hardware and required licences to meet requirements.

91. As a result, progress on implementing actions agreed in our 2013 report has been slower than anticipated. Revised dates have been agreed to deliver the outstanding action points and this will be monitored by both the Asset Management Group and the Monitoring & Audit Committee.

Arrangements for the prevention and detection of fraud

92. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

93. Orkney Islands Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

94. The arrangements for the prevention and detection of corruption in Orkney Islands Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland

95. Part of Audit Scotland's duties as external auditors of Orkney Islands Council is to consider concerns raised by members of the public about the council. If appropriate, we may investigate them further. During 2013/14 we did not follow up any such correspondence.

96. During 2014 a concern was raised by an elected member on the financial arrangements relating to the former Interim Chief Executive. We were asked to review the findings of an internal investigation on this matter which found that, whilst there were weaknesses in the contract agreements, payments made were correct. However, election payments made to this officers in 2012/13 had been omitted in error from the Remuneration Report that year and a disclosure was included in the 2013/14 accounts to highlight this. We concurred with the internal review findings.

Integration of adult health and social care

97. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework

for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the council will need to engage at the highest level with NHS Orkney to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- the establishment of a local integrated partnership and related governance arrangements
- integrated budgets for health and social care
- joint responsibility for strategic and locality planning in the area served.

98. Orkney Health and Care (OHAC) was established in 2010 and is a joint initiative, funded by the council and NHS Orkney, to improve social care, health and wellbeing, reduce inequalities and provide high quality care for people in Orkney. In July 2014, the council indicated that a joint board model was its preferred option for integration of health and social care services and in October 2014 NHS Orkney also approved this model as the preferred approach. The new body will be in place by April 2016.

Welfare Reform

99. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reforms.

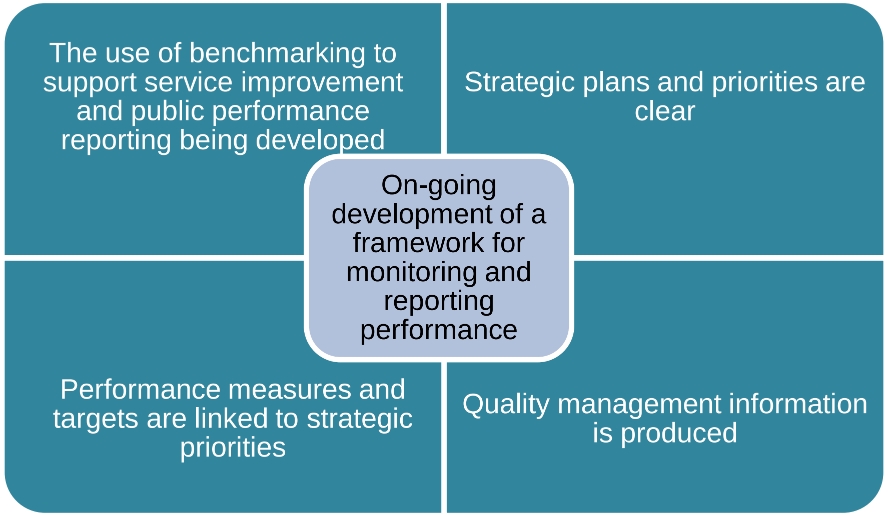
100. The council has a link to welfare reform information on the home page of its website to help people understand the changes. A report from the Scottish Parliament's Welfare Reform Committee in June 2014: *The Local Impact of Welfare Reforms* highlighted that Orkney was one of the areas less affected by the reforms with an average loss of income of £340 per annum for each working adult in receipt of benefits, lower than the Scottish average of £460.

Outlook

101. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage at the highest level with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

102. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 to March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that councils' arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS, although for Orkney Islands Council there will be no transfer of staff to the DWP

Best value, use of resources and performance



103. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations (ALEOs). This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

104. Continuous improvement in public service and governance lies at the heart of Best Value and Community Planning. Local authorities must develop an improvement culture across all service areas. Elected members and officers have to focus on policy objectives and the needs of service users and communities. They must be driven by a desire to achieve the highest possible standards in service delivery. This requires a culture where areas in need of improvement are identified and openly discussed, and in which service performance is constructively challenged.

105. The council's first Best Value and Community Planning report in 2008 found that it performed well in a number of areas and since then further improvements have been made including: developing a new performance management system and establishing a common set of corporate performance management arrangements with community planning partners to ensure all partners contributions are clearly specified and measured.

Community Planning

106. During 2014 an audit of Orkney's Community Planning

Partnership (CPP) was carried out by Audit Scotland and its scrutiny partners. The overall aim of the audit was to assess the effectiveness of community planning in making a difference to local communities. The audit fieldwork was undertaken in May 2014 and key findings include strong commitment and enthusiasm for partnership working at an operational level and a strong track record of involving the voluntary sector in Orkney. Residents generally live in safe communities and enjoy a good quality of life. However, the CPP Steering Group does not provide effective leadership and has made limited progress in driving important strategic issues. Progress in agreeing priorities and improvements has been hampered by tensions between the council and the NHS. The final audit report will be published in November 2014.

Use of resources

107. In June 2014 the Policy & Resources Committee considered a progress paper on the change programme. Six separate project areas have been identified: finance, best value and performance, ICT business transformation, human resources, asset management and public communications. There are 24 workstreams with 37 outputs identified for these project areas. Some notable outputs include:

- current and future service demand
- high level review of the scope to externalise specific council services and functions
- identification of the council's key business processes
- improvements and automation.

108. Individual delivery plans are to be prepared for the 37 outputs. There has been assistance provided by the Improvement Service through workshops and sharing of good practice. A members' seminar was held in July 2014 with the aim of both providing an update on progress and soliciting ideas from members for service changes and improvement.

109. The change programme is at an early stage and we are not able at this point to comment on whether actions taken have delivered efficiencies. We will monitor progress as part of our 2014/15 audit work.

Performance management

110. The council has a number of performance measures in place: service specific indicators, council wide indicators, Single Outcome Agreement (SOA) outcome indicators and statutory performance indicators.

111. In December 2013, the council adopted a new corporate performance management system ('Aspireview'). This new system is enabling more efficient collation of performance reports than in the past. The system also allows the council's public sector partners to enter data relating to SOA indicators so all performance information is held in one place

112. We are satisfied that appropriate arrangements for performance management were in place within Orkney Islands Council for 2013/14.

Overview of performance targets in 2013/14

113. The council produces an annual performance report which outlines areas where the council has performed well along with those where further improvements could be made. The report covers the calendar year and therefore the 2014 version will not be available until early 2015. This does not fully comply with the Accounts Commission Direction which requires the information published to refer to the financial year.

Refer Action Plan Point 7

114. In May 2014 the Improvement Service asked the council to pilot the Local Government Benchmarking Framework (LGBF) reporting format. When complete, this will be used as the first comprehensive report on the LGBF to the council. Officers have also developed a local framework for the LGBF to ensure managers have a good understanding of the approach, and this has been agreed by the Senior Management Team.

Statutory performance indicators

115. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

116. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

117. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish local authorities' approaches to public performance reporting (PPR) in 2012/13 has been carried out

by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for Orkney Islands Council were mixed, with 19% fully, 76% partially and 5% not meeting the criteria. This was, however, a significant improvement on the 2011/12 position (5% fully, 62% partially and 33% not meeting the criteria). A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in Spring 2015.

118. Our review of SPIs/PPR for 2013/14 found that the council has a structured approach to performance reporting which it communicates to the public. All services report performance on a 6 monthly basis to the relevant committee.

119. The Policy and Resources Committee receives the performance monitoring information for the Council Plan as well as the Chief Executive's Service and Corporate Services. The Development and Infrastructure Committee is responsible for scrutinising the performance against the Development and Infrastructure Service Plan. The Education, Leisure and Housing Committee is responsible for scrutinising the performance against the Education, Leisure and Housing Service Plan. There is a consistent approach to performance reporting across the council, this is done on a standard template using BRAG status (Blue which is complete, Red which is medium to high risk that the target won't be met, Amber which is slightly behind target and Green which is on target).

120. The council provides guidance to staff and elected members and has carried out workshops with them to gauge their understanding of performance issues.

121. Performance information is well signposted on the council's website with links to key documents. The council provides good access to a range of reports for monitoring and managing performance including the single outcome agreement and monitoring information on the council plan, performance indicators, the local government benchmark framework and service plans.

122. The council consults with its communities on the content and relevance of the performance information it receives and uses this feedback to design how it presents the information in its annual performance report.

123. The council's SPI website has a feedback form for comments and this is currently the only means by which communities can comment on the indicators used. The council may also want to consider alternative ways in which to communicate with its communities to ensure it provides performance information that meets their needs.

124. The council has a system in place for the verification of SPIs

through a rolling programme of checks by internal audit.

Assurance and improvement plan 2014-17

125. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 was the fifth AIP for Orkney Islands Council prepared by the Local Area Network of scrutiny partners for the council since the introduction of the shared risk assessment process. It was published on Audit Scotland's website and was submitted to both the Policy & Resources and Monitoring & Audit Committees in June 2014.

126. As a result of this year's shared risk assessment process and taking into account already agreed work, , including the council asking Audit Scotland to audit its Community Planning Partnership, the following specific scrutiny activity was undertaken:

- Community Planning Partnership audit was carried out during 2014 by Audit Scotland and its scrutiny partners. The report has been agreed with officers and will be published in November. See paragraph 106 above for details of the key findings.
- A performance inquiry was issued in July 2014 to gain assurance on the quality of the council's housing services and in relation to the financial aspects of the Scottish Housing Quality Standard (SHQS). The return was delayed at the request of the council and the Scottish Housing Regulator expects to be able to comment on the return by 10 October 2014. Depending on the outcome of this the Scottish Housing Regulator may consider further on-site scrutiny.

127. Audit Scotland also followed up two national performance audits during 2014. This involved targeted follow-up of *Arm's-length external organisations (ALEOs): are you getting it right* (June 2011) and *Major capital investments in councils* (March 2013).

128. We reported our findings from the review of ALEOs to the council in May 2014 concluding that whilst the council has developed a sound approach to governance arrangements for ALEOs this is not applied consistently. Improvements could be made by ensuring service and financial performance is reported in sufficient detail and ensuring members or officers representing the council on ALEO boards are clear about their roles and responsibilities. An action plan was attached to the report highlighting six key risk areas and officers agreed actions to address these.

129. The capital investments follow up report issued in June 2014 found that the key messages from the national report issued in 2013 applied similarly to Orkney Islands Council, for example:

- the council did not have a capital investment strategy and did not evaluate the performance of its capital investment programme

- information for decision making is of a disparate nature and may not be sufficient to allow senior officers and members to make the right decisions at the right time
- the business case or capital project appraisal submission needs to provide specific and measurable benefits and targets against which success can be assessed.

130. It has been recognised by senior managers and members that not all capital projects were as successful, either financially or in delivering on time, as they should have been, a trend that continued in 2013/14. We will monitor the progress the council is making in implementing improved capital project management controls going forward, including the work on revising project governance and staffing currently underway. An action plan was also agreed as part of the follow up report to address the 10 risk areas.

131. We will revisit these areas as part of the Shared Risk Assessment process for 2014/15.

National performance audit reports

132. In previous years the Monitoring and Audit Committee considered national audit reports and where relevant, these reports were also presented to service committees for consideration. This approach has been updated with the Chief Internal Auditor preparing a briefing paper on national reports for both the Committee and the Senior Management Team. The Committee can then request the full report to be brought to a meeting for discussion and the respective service leads and Directors are responsible for taking relevant national reports to their service committees. We noted that three national reports – Maintaining Scotland's roads, Managing early departures and Option appraisals – were not taken to either Monitoring and Audit or a specific service committee.

Refer Action Plan Point 8

Outlook

133. In common with other councils, Orkney Islands Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely through service specific initiatives. However as choices on how to address funding gaps becomes increasingly difficult the council will have to focus on making the very best use of all available resources and challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

Appendix I – Summary of Orkney Islands Council local audit reports 2013/14

Annual Audit Plan: Planned external audit work for the 2013/14 Financial Statements.

Assurance & Improvement plan: prepared by the Local Area Network of scrutiny partners for the council based on the shared risk assessment process.

Internal Controls Review: The overall conclusion is that internal controls within Orkney Islands Council are operating effectively, although there are some areas where improvements can be made.

Arms Length External Organisations – Are you getting it right?: Many of the examples of basic, better and advanced practice as suggested by the Accounts Commission are being met by Orkney Island Council. There are however a number of areas which could be improved.

Major Capital Investments - New measures have been put in place over the last year to improve financial stewardship but further improvements are required to strengthen the capital investments process.

Computer Services Review: Follow up - Progress in addressing the 14 risk areas was slower than anticipated due to PRN compliance requirement taking priority. Revised delivery dates have now been agreed.

ISA 260: Annual report to those charged with governance. Draws significant matters arising from the audit of the financial statements to those charged with governance prior to the formal signing of the independent auditor's report.

Independent auditors' report on the 2013/14 financial statements.

Annual Audit Report: A summary of our main findings arising from the 2013/14 audit of Orkney Island Council.

January 2014 | February 2014 | March 2014 | April 2014 | May 2014 | June 2014 | July 2014 | August 2014 | September 2014 | October 2014 | November 2014 | December 2014

Appendix II – Summary of Audit Scotland national reports 2013/14

May 2013 | June 2013 | July 2013 | August 2013 | September 2013 | October 2013 | November 2013 | December 2013 | January 2014 | February 2014 | March 2014 | April 2014 | May 2014 | June 2014

May 2013

Maintaining Scotland's roads – An audit update on councils' progress since our 2011 report on Maintaining Scotland's Roads.

Managing early departures from the Scottish public sector – Report aims to help public bodies improve their management and reporting of early release schemes.

July 2013

Housing in Scotland – An assessment of how well the Scottish Government and councils plan to meet Scotland's housing needs and future challenges.

October 2013

Charging for services – Are you getting it right? Considered the contribution charges make to budgets and how charges can influence how people choose to use services.

February 2014

Reshaping care for older people - A progress review, three years into a ten-year programme and considers the impact of the Change Fund to the integration of health and social care services.

March 2014

Options appraisal - Are you getting it right? Highlights the importance of councils using rigorous option appraisals to deliver efficient and effective services and to achieve best value.

An overview of local government in Scotland - A high level, independent view on the progress councils are making in managing their finances and achieving Best Value.

April 2014

Procurement in Councils – An assessment of whether councils are efficiently and effectively managing how they procure goods and services.

June 2014

School Education - An assessment of how efficiently and effectively councils are using their resources to maximise pupil achievement in primary and secondary schools education.

Appendix III – Significant audit risks

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

Audit Risk	Assurance procedure
Health and social care integration OHAC partners should clarify some partnership arrangements in order to realise the full benefits of partnership. The Orkney Community Care Partnership, Orkney Islands Council and NHS Orkney have still to decide which model will be adopted, with 13 months remaining till the government's deadline. *Risk: it will take too long to deliver the Scottish Government's integration agenda in Orkney.*	We have monitored progress through the year noting the discussion of options proposals at Policy and Resources Committee and the on-going dialogue between the council and NHS Orkney. A body Corporate model has been agreed by both partners as the preferred model. We will continue to monitor developments during 2014/15. The full implementation date is 1 April 2016.

Audit Risk	Assurance procedure
Capital programme The mid-year reporting for 2013/14 shows a capital spend of 39.2% against budget, which indicates that there may again be a year-end underspend. Other projects that have now been completed have exceeded their budget and timeframe. *Risk: major projects are not delivered on time and on budget, and the council is not able to deliver the capital investment to support its agreed priorities.*	The final capital spend of £28.2 million reported in the council's annual accounts was 24.6% below the budget of £37.4 million. The council's existing methodology for capital expenditure includes phasing this expenditure over the number of years it is expected individual projects will take to complete. However, overly optimistic completion targets and limited resources to tackle multiple projects at the same time, lead to slippage in the programme and an on-going underspend on capital expenditure. During 2013 the council re-introduced its capital project appraisal (CPA) process which had been deferred between 2009 and 2012, due to affordability and capacity issues whilst the £60 million Schools Investment Programme was being progressed.

Audit Risk	Assurance procedure
Major capital contracts Concerns were raised in the 2012/13 Annual Governance Statement regarding the procurement of major contracts, including capital contracts. *Risk: contracts let do not provide value for money for citizens.*	We carried out a review of major capital investments at the council during the year and found that the council has put in new measures over the last year to improve financial stewardship including: the re-instatement of the capital appraisal process to evaluate capital investment projects; implementation of a standard set of criteria, similar to an outline business case, required to progress a capital project to approval stage; a review of financial regulations to include the requirement for carrying out a post-completion review for capital investment projects and adoption of the Audit Scotland *Good Practice Checklist* for managing major capital investment projects. There are, however, a number of significant weaknesses where improvements are required. These areas are similar to the recommendations identified in the *Major Capital Investments in Councils* report issued in 2013 and included (but are not limited to): • the need for a capital investment strategy and evaluation of the performance of the capital investment programme • information for decision making is of a disparate nature and may not be sufficient to allow senior officers and members to make the right decisions at the right time. There is no one individual responsible for a project from its inception to completion, ensuring continuous involvement and collation of information on expenditure, risk, progress against milestones and other information relevant to the successful completion of a project • the business case or capital project appraisal submission needs to provide specific and measurable benefits and targets against which the success can be rated.

Audit Risk	Assurance procedure
Information management Following our 2012/13 Computer Services Review report, work is underway to restructure and improve the council's ICT service provision. *Risk: the risks identified in our report may not be addressed in a timely manner.*	The findings detailed in our initial report required considerable work to be carried out by the IT service. However, similar to all local authorities in Scotland, Orkney Islands Council was advised in the summer of 2013 that it had to make significant changes in its computer networking infrastructure to meet the requirements of the Public Services Network (PSN). At the time of our follow-up review, the new network architecture for PSN had been approved by CLAS certified consultants and work was ongoing to implement the new security infrastructure which would allow compliance to be achieved. As a result, progress on implementing actions agreed in our 2013 report has been slower than anticipated. 11 of the 14 recommendations remained outstanding and these points will now be monitored by the Asset Management Sub-Group and the Monitoring & Audit Committee. The recommendations are expected to be implemented by December 2014.
Capacity planning The financial management system is due to be upgraded in the summer of 2014. At the same time, finance staff are being seconded to different roles in the council. *Risk: system and staffing availability issues may impact on the ability of the council to prepare the accounts by the deadline and meet audit requirements thereby delaying sign-off of the annual accounts.*	Whilst a number of staff are seconded to the change programme, key finance posts have been backfilled and recruitment of additional resources for the accountancy team is due to be completed shortly. The council's accounts were signed off by the required deadline. The upgrade to the financial management system and replacement of the server is behind target and is now due to be completed in October 2014. We will monitor progress during our 2014/15 audit.

Audit Risk	Assurance procedure
Long term financial strategy The council does not have a long term financial strategy in place. A long term strategy would look at spending beyond ten years, and up to twenty or thirty years, making assumptions on the financial future. *Risk: the council's long term financial future may not be sustainable.*	The Council has approved the establishment of a Change Programme which has the overall purpose to transform service delivery through fresh approaches in order to reduce costs and, where feasible, to improve services. . One of the key programme outputs will be the delivery of a medium-term integrated resource strategy incorporating Finance, HR, Asset Management and ICT strategies. The Council has reviewed the sustainability of its Strategic Reserve Fund and established a strategy to maintain the fund value in real terms whilst also supporting the general fund services through a contribution from the fund. There is still no long term strategy in place and therefore the risk that financial stability is not sustainable remains.
Transparency of financial reporting The council's relationship with its subsidiaries, particularly Orkney Ferries Limited and Orkney Towage Company Limited is reported through its Group Accounts with the council covering their deficits. *Risk: financial reports to council service committees do not show the full costs of the services provided.*	We carried out a review of Arms Length External Organisations during 2013/14. Findings were reported to the council in May 2014 and highlighted that whilst the council has developed a sound approach to governance arrangements for ALEOs this is not applied consistently. Management agreed that the current approach would be strengthened by ensuring service and financial performance is reported in sufficient detail and ensuring members or officers representing the council on ALEO boards are clear about their roles and responsibilities. A withdrawal agreement with the Merchant Navy Officers' Pension Fund has been signed which will allow the integration of the ferry service into the council to be progressed.

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/12	**Capital Accounting** The depreciation figure in the 2013/14 financial statements submitted for audit was incorrectly calculated by the asset register system due to a computer software error. The revised figure supplied by the system provider highlighted further discrepancies in the system. **Risk** The council's asset register system is not robust and can not be relied on to provide the figures for the financial statements. **Recommendation** The council should liaise closely with Logotech and test the results to ensure that the anomalies highlighted are resolved before the 2014/15 accounts process begins.	The Council continues to liaise closely with Logotech with a view to resolving the outstanding issues with the asset register system. The Year End procedures will be revised to ensure that a sample from each Asset Category is tested to validate the depreciation charges as part of the accounts closedown process.	Head of Finance	30/06/2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/12	**Group Accounts** A number of figures in the unaudited group CIES did not agree to the original supporting papers provided. Amended figures were provided in an updated set of accounts on 17 September 2014. Whilst the majority of the revised figures were as expected, the updated accounts highlighted further discrepancies between the group CIES and balance sheet which required a significant amount of officer and auditor time to resolve. **Risk** The group CIES and balance sheet do not properly record all of the necessary adjustments and therefore do not present a true and fair view of the group's financial position. **Recommendation** The council's closedown procedures should include preparation of a group trial balance to ensure that any discrepancies are identified before the accounts as submitted to audit.	A group trial balance will be included in the working papers for the Group Accounts for the year end 2014/15 and in future reporting periods.	Head of Finance	30/06/2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/14	**Budget Approval** An annual budget is approved by council in February each year. On an on-going basis, amendments are made to the budget as additional funding is received. The amendments are reported to committee for noting rather than approval, however, the financial regulations do not allow expenditure to be incurred outwith the approved budget. **Risk** Expenditure is not properly approved or authorised. **Recommendation** Amendments to the budget should be taken back to council for approval.	As noted, all additional funding is reported to Committee through the budget monitoring process. It would be administratively bureaucratic to seek Committee approval to spend every additional funding stream that is announced during the year. These announcements are often for small sums that are predominantly passported to the Council Service budget that corresponds with the Government Policy objective. A periodic "Approval of Budget Change" recommendation will be added to the Policy and Resources revenue expenditure monitoring statement together with a delegation of authority recommendation to the Head of Finance to make minor amendments to the approved budget.	Head of Finance	30/06/2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/17	**Capital programme** The council reported a £9.2 million underspend against the total capital programme for 2013/14. Overly optimistic timescales and limited resources to tackle multiple projects at the same time can result in the capital programme not being completed as planned. This has resulted in an on-going underspend on capital expenditure in recent years **Risk** The council is unable to effectively deliver its annual capital expenditure programme. **Recommendation** The capital expenditure programme should be phased to ensure the annual capital costs are based on a realistic project delivery plan.	When updated information is reported by the Services for the budget monitoring process revised timescales for completion are noted and approval for slippage sought and the capital programme is re-profiled accordingly. In some cases the role of the Service/Project lead has not been active and reporting has defaulted onto the respective delivery teams with a resultant focus on contract delivery and away from approved budgets and timescales. This has recently been recognised through the approval of a project team to manage the performance of the capital programme going forward. Once established this should lead to improvements in the effective delivery of the capital programme.	Head of Finance	30/06/2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/18	**Long term financial planning** The council does not have a long term financial strategy in place **Risk** Resources are not aligned with council priorities over the longer term **Recommendation** A long term financial strategy should be developed.	As part of the budget setting process, the efficiency savings and service pressure growth Challenge Processes help ensure that budgets are redirected towards Council Priorities. The Council has established a Change Programme Team that has as one of its work streams the development of a long term financial strategy. A long term financial strategy will be developed as part of the 2015/16 budget setting process.	Head of Finance Change Programme Manager	31/03/2015 February 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/20	**Charitable Trusts** The council's two charitable trusts are governed by trustees. We noted that there had been no trustee meetings during the year, nor for a number of years prior to this. **Risk** The trustees are unable to adequately demonstrate proper stewardship of the funds **Recommendation** Regular trustee meetings should be held to enable trustees to consider and agree on how funds are to be managed and disbursed.	The Council has restructured its charitable bequests into a single general charitable trust, The Orkney Islands Council General Charitable Trust (OICGCT). The inaugural meeting of the Trustees was held on 12 September 2014 where the Trustees considered the progress with reorganisation, the new trust deed, the draft accounts and how applications for assistance from the Trust would be administered. A further meeting of the Trustees will be held during 2014 to consider any applications for assistance received following an advert placed in the local paper at the end of September. It has been agreed that there will be two meetings of the trustees held per annum. A scheme for the reorganisation of the Orkney Educational Trust into the OICGCT was commenced in October 2014.	Head of Finance	Now Actioned

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/27	**Public Performance Reporting** The council publishes an annual performance report covering the previous calendar year. However, the Accounts Commission Direction requires this information to cover the financial year. **Risk** The council is not complying with statutory reporting requirements. **Recommendation** Annual performance reporting should cover the financial year.	The Council is on target to publish its Annual Performance Report for calendar year 2014 early in 2015, and this will include PI data for financial year 2013/14. From 2014/15, the Council's Annual Performance Report will be for the financial year.	Head of HR and Performance	31 October 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
8/30	**National Performance Reports** A briefing paper is prepared for the Monitoring and Audit Committee and Senior Management Team on all national reports. The reports are then considered by the relevant service committee and, where requested, by the Monitoring and Audit Committee. We noted that 3 of the national reports issued during 2013/14 had not been considered at any committee meeting. **Risk** Areas of good practice to reduce risk and tighten controls are not appropriately reflected within the council. **Recommendation** National performance reports should be considered by the appropriate committee to ensure that any areas for improvements are addressed.	Heads of Service will ensure that the reports 'Maintaining Scotland's Roads' 2013, 'Managing Early Departures' 2013 and 'Options Appraisal', 2014 are reported to the relevant service committee to ensure that the Council learns from the findings of these reports.	Head of HR and Performance/ Head of Roads and Environmental Services	March 2015