



Comhairle nan Eilean Siar
Internal Audit Review
Islands Deal – Comhairle Governance Arrangements
Final Report – 2023/24

5 January 2024

COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
ISLANDS DEAL - COMHAIRLE GOVERNANCE ARRANGEMENTS

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Draft Report Issued	20 December 2023
Management Response Received	3 January 2024
Final Report Issued	5 January 2024

Issued to:	
Chief Executive	Malcolm Burr
Depute Chief Executive	Calum Iain Maciver
Islands Deal Programme Director	Anne Murray

SECTION 1: EXECUTIVE SUMMARY

Introduction

- 1.1 The Report has been prepared following an internal audit review of Islands Deal – Comhairle Governance Arrangements as part of the operational annual internal audit plan for 2023/24. The purpose of the Report is to provide an overview of the Comhairle’s own governance arrangements for the operation and management of the Islands Deal. The scope of the audit included a review of the following objectives:
- Confirm that governance arrangements are in place, including key roles and responsibilities;
 - Confirm there are policies and procedures in place to review and approve business cases;
 - Confirm that business cases are approved by the programme board and other relevant forums;
 - Confirm that monitoring processes are in place and sufficient; and
 - Review the processes in place for funding drawdowns, cash flows and clawback.

Background Information

- 1.2 The Islands Growth Deal is a 10-year, £100m, UK and Scottish Government investment into Orkney, Shetland and the Outer Hebrides. The Full Deal Agreement with UK and Scottish Government was signed by the three island Councils on 21st January 2023. There is a joint governance structure to manage the Deal, supported by a Programme Management Office.
- 1.3 The Scottish and UK Governments have each committed an investment of £50 million over a 10-year period (£100 million in total). The Deal will provide capital investment to sixteen Projects across the Island regions, including three pan-island Programmes and will lever in an additional £293 million of match funding. Projects are aligned to three themes: Leading the way to a Low Carbon Future; Supporting Growth and Future Industries; and Thriving, Sustainable Communities.
- 1.4 As part of the Deal the Outer Hebrides will receive a total of £33.3 million to be invested in a number of key developments that will help grow our economy through the establishment of Gateway tourism infrastructures throughout our Islands; pioneering renewable energy and Spaceport facilities and enabling growth of sustainable skills for our population through the UHI Outer Hebrides Campus redevelopment project and TalEntEd Programme; and investment in our key Primary and Creative industries.
- 1.5 In September 2021, the Comhairle agreed the Governance Agreement for the Islands Growth Deal. This established the Islands Growth Deal Joint Committee for the purposes of governing the Islands Deal. Each Council is represented by two members on the Joint Committee. The Comhairle, Orkney Islands Council and Shetland Islands Council together represent the Constituent Authorities within the Islands Growth Deal.

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- 1.6 The Comhairle acts as the Lead Authority and the Accountable Body for the Islands Deal in terms of the relationship with UK and Scottish Government. Islands Deal funding is channelled through the Comhairle who then enters into Grant Agreements governing its distribution to Grantees.
- 1.7 From our review we have received detailed information on the governance processes and are satisfied that these are comprehensive, well communicated and satisfy the needs of all parties involved in the Islands Growth Deal at this time.
- 1.8 Since completing the review, the Comhairle has been subject to a criminal cyber incident which has affected large amounts of data. The team have the majority of their governance documentation available to them via sharepoint which was largely unaffected.

Concluding Remarks

- 1.9 Our review concluded that there were no issues concerning the Comhairle's Governance Arrangements in relation to the Islands Deal, and therefore have no recommendations to make at this time.

SECTION 2: RECOMMENDATIONS AND AUDIT OPINION

- 2.1 Based on the audit work carried out our overall opinion is that a Full level of assurance can be placed upon the control environment of the service/area under review.

Internal control, governance and risk management are of a high standard. A sound system of control to achieve the system objectives exists and the controls are being consistently applied.

It should be noted that our findings and conclusions are based on the information made available to us at the time of our review.

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5 January 2024

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT

Responsibility in Relation to Internal Controls

It is the responsibility of the Comhairle's management to maintain adequate and effective financial systems and to arrange for a system of internal controls. Our responsibility as internal auditors is to evaluate the financial systems and associated internal controls. In practice, we cannot examine every financial implication and accounting procedure within an activity, and we cannot substitute for management's responsibility to maintain adequate systems of internal controls over financial systems. We therefore may not identify all weaknesses that exist in this regard.

It is the responsibility of the Comhairle's management to consider the detailed findings of this Report, where such findings have a specific impact on risk registers. This may include a risk that has not yet been identified, or current risk controls which may be required to be updated to reflect any changes as a result of the findings contained in this report.

Responsibilities in Relation to Fraud and Corruption

The prime responsibility for the prevention and detection of fraud and irregularities rests with management. They also have a duty to take reasonable steps to limit the opportunity for corrupt practices. It is our responsibility to review the adequacy of these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity may have occurred and remained undetected.

We nevertheless endeavour to plan our internal audit work so that we have reasonable expectation of detecting material fraud, but our examination should not be relied upon to disclose all such material frauds that may exist.

DEFINITION OF AUDIT OPINIONS AND RATINGS

The standard definitions for internal audit assurance over an engagement are as follows:

Level of Assurance	Definition
Full Assurance	Internal control, governance and risk management are of a high standard. A sound system of control to achieve the system objectives exists and the controls are being consistently applied.
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.