



Comhairle nan Eilean Siar
Internal Audit Review
Subsides Bus and Air services (Public Transport)
Final Report –2024/25 - 15

27 August 2025

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT**

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Date of Visit	July 2025
Draft Report Issued	19 August 2025
Management Response Received	27 August 2025
Final Report Issued	27 August 2025

Issued to:	
Chief Executive	Malcolm Burr
Chief Financial Officer	Sandy Gomez
Chief Officer Assets and Infrastructure	Calum Mackenzie
Head of Municipal Services	Colm Fraser
Transportation Manager	James Morrison
External Audit	Martin Devenny

SECTION 1: EXECUTIVE SUMMARY

Introduction

1.1 The Report has been prepared following an internal audit review of Subsidies – Bus and Air Services (Public Transport) as part of the operational annual internal audit plan for 2025/26. The purpose of the Report is to provide an overview of the Comhairle's arrangements for the operation and management of Subsidies Management. The scope of the audit included a review of the following objectives:

- Confirming that the provision for subsidy funding for the air service complies with relevant UK, Scottish and EC legislation;
- Confirming that there are systems and controls for paying subsidies to the air transport provider and the bus operators;
- Review paperwork supporting air transport and bus operator subsidies to confirm that these are sufficiently detailed to enable providers to fully understand their responsibilities in relation to complying with service standards;
- Considering arrangements for monitoring where service standards expected in respect of subsidised bus and air transport are being achieved, and where standards are not being monitored options contained within the contract/agreement are actioned timeously;
- Determining that performance indicators are reported to the Comhairle on a quarterly basis to allow sufficient monitoring in terms of punctuality, cancellation and weather related matters; and
- Assessing whether the procedures and arrangements followed by the Comhairle are sufficient to enable the Comhairle to demonstrate compliance with 'Following the Public Pound'.

Background Information

1.2 The Comhairle undertook a large-scale redesign of bus services throughout the Western Isles back in 2019. The redesign was identified saving of circa £1.2 million pounds over the seven-year term. The new contracts covered bus services for the islands for the period 2021-2028.

The Scottish Government has powers to designate particular air routes, which serve a peripheral region as a Public Service Obligation (PSO). A PSO can only be created where the maintenance of regular air services are considered vital to the economic development of the peripheral region where the airport is located. PSO routes exist because they are unviable for airlines to operate

Concluding Remarks

1.3 Our review concluded that there were no issues concerning the Comhairle's Governance Arrangements in relation to the Subsidies Bus and Air Services and therefore have no recommendations to make at this time.

SECTION 2: RECOMMENDATIONS AND AUDIT OPINION

- 2.1 We have graded our detailed findings and recommendations, based on the likelihood of the identified weakness occurring and the impact on the Comhairle if it should occur.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions and the number of recommendations in each rating.

Definition of recommendation	Grade	No.
Major weaknesses that could have a significant impact on the Comhairle if not addressed and contained urgently.	High	
Important issues relating to controls being absent, not operating as expected or could be improved.	Medium	
The weakness is unlikely to have a material impact on the Comhairle. These are not critical but management should address.	Low	

Where we have identified isolated exceptions in our sample testing, and we consider that they are unlikely to recur; and would have no significant impact if they should occur;

We have classified them as minor or trivial, discussed them with relevant officers and detailed them in Appendix C to the Report.

- 2.2 Based on the audit work carried out our overall opinion is that a Full Assurance 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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27 August 2025

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.

ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES AND CONTROLS

ITEM	ISOLATED EXCEPTION	RESPONSIBLE OFFICER	AGREED Y/N	DATE OF DISCUSSION
1	1 discrepancy of £22.75 to a bus provider in April 2024 was identified. This occurred following the cyber-attack (November 2023) as the result of a calculation error when manual processes were still being undertaken.	Colm Fraser	Yes	19/08/2025