

Highland Council

Strategic Audit Risk Analysis 2008/09

May 2009



 AUDIT SCOTLAND



Highland Council

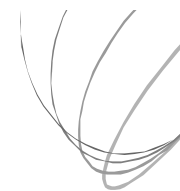
Strategic Audit Risk Analysis 2008/09

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Key messages



This report sets out the findings from our review of the strategic risks facing Highland Council. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identify areas for ongoing review in future years.

The local government environment within Scotland has continued to evolve since we issued the last Priorities and Risk Framework (PRF) document in 2007. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs). The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.

Services delivered directly, or in partnership with others, involve substantial resources. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an ageing population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.

The overall context for local government, therefore, is continuing change, with increasing pressures on services. The new councils face difficult choices in deciding which service options to deliver and how to allocate limited resources.

The key priorities and risks identified within our analysis include:

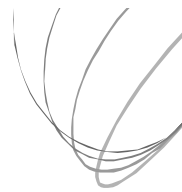
- addressing internal audit's findings on the Caithness Heat and Power (CHaP) project
- introducing personal development plans for members and using these as a basis for determining and developing training and development opportunities that are appropriate to members' needs
- ensuring internal audit coverage is sufficient to provide assurance to management on the adequacy of internal control systems
- progressing the Pathfinder North and NOSLA shared services projects
- ensuring that clear governance and accountability structures are in place and there is clarity in the respective roles of partners who are accountable for the delivery of the SOA
- further developing the performance management framework to enhance performance information
- developing some consistency between services in monitoring and reporting performance information and ensuring it is available on a timely basis
- developing performance management arrangements for the SOA outcomes
- managing pressures in the budget arising from the concordat with the Scottish Government and the current economic climate



- resolving the job evaluation appeals and managing the impact on the morale of staff adversely affected
- implementation of harmonised terms and conditions for relevant staff
- progressing the implementation of the personnel module to ensure full and detailed staffing information is available to inform future decisions
- maintaining progress with implementation of the asset management plan
- achieving full compliance with the Scottish Housing Quality Standard
- maintaining progress with implementing the procurement strategy
- adopting a corporate approach to data handling
- managing the ICT reprocurement project effectively to achieve value for money
- progressing with improvements to the arrangements for business continuity planning and ICT failures.

The risks we have identified present significant challenges for the council, and we have confirmed that the council has action plans in place to address many of the risks identified. In these areas we will monitor the progress over the coming years and report any significant matters which arise on an exception basis.

Where relevant, any significant findings from our work on the council's management of key risks will also be summarised in our annual report on the audit.



Introduction

1. This report sets out the findings from our strategic risk assessment for Highland Council. We considered the key risks being faced by the council and the action underway or planned by the council in response to these risks. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identified areas for ongoing review in future years.
2. To provide the context for the council, we briefly outline some of the key challenges currently facing Scottish local government. We then provide an overview of the Highland Council and a summary of our assessment of the key risks facing the council over the next three years together with the management assurances we have received for each risk area.
3. As many of the risks included in this report are high level and strategic in nature, they will continue to be relevant to the council for a number of years. Therefore, although our analysis will be updated annually, many risks will remain from year-to-year and the risk analysis will cover a rolling three year period.
4. This report complements the work carried out by us in other areas such as the audit of the financial statements, the approach to which was reported in our Annual Audit Plan.
5. The management of the council is responsible for implementing appropriate internal control systems including risk management processes. Communication by auditors of matters arising from the audit or of weaknesses does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.
6. The risks outlined are only those which have come to our attention during the course of our normal audit work in accordance with the Code of Audit Practice and are not necessarily, therefore, all of the risks which may exist.
7. Risk exists in all organisations that are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.
8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation received during the course of our work is gratefully acknowledged.



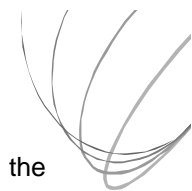
Key issues and priorities in the local government sector

Overview

9. The local government environment within Scotland has continued to evolve since we issued the last Priorities and Risk Framework document. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs) between all thirty two councils and the Government by June 2008. Half of these first phase SOAs were developed with Community Planning Partnerships (CPPs). The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.
10. Services delivered directly, or in partnership with others, involve substantial resources; councils spend around £18 billion each year, employ around 229,500 full-time equivalent staff and use assets worth about £26 billion. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an ageing population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.
11. The overall context for local government, therefore, is continuing change, with increasing pressures on services. The new councils face difficult choices in deciding which service options to deliver and how to allocate limited resources.

2008/09 Priorities and Risks Framework

12. The PRF is a national tool used by auditors to plan the risk-based audits of local authorities in Scotland. It identifies the key national priorities facing councils and the main risks to their achievement. This helps to ensure that audit work takes account of sector specific national priorities and risks. It is an integral part of the overall approach to local authority audit.
13. Auditors discuss the risks contained in the PRF with councils and the national view through the application of the PRF is combined with the auditor's understanding of the key priorities and risks operating at the local level. This overall assessment of risk informs the auditor's decisions on where to target audit resources. This approach helps meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment.
14. Local discussions on the PRF represent an important annual engagement with the most senior management in councils. They have the potential to make a significant contribution to our intelligence gathering and national reporting and influence our programme of national performance audit studies. The application of the PRF also provides a useful source of early intelligence for the Accounts Commission about the risks facing the local authority sector. Throughout this document most references are to the issues and risks facing councils, however many of the issues will also apply to joint boards and other bodies.



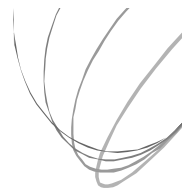
15. It is important to note that auditors do not carry out detailed audit work on all the matters set out in the PRF. Also, we recognise that even though the steps taken by councils to address issues in the PRF may be weak, it does not necessarily follow that the risks will crystallise. We also acknowledge that risks exist in all organisations committed to continuous improvement.
16. Working with local government and stakeholders, we identify the key issues facing the sector in the coming year and select the priorities for coverage. The key national priorities and risks identified for 2008/09 - 2010/11 are:

Vision and strategic direction	Financial management
Partnership working and community leadership/ engagement	People management
Governance and accountability	Asset management
Performance management and improvement	Procurement
Risk management	Information management
	Service priorities and risks

17. In addition to these headings, there are a number of cross cutting issues that are important elements of the overall audit approach, including equality and diversity and sustainability.
18. The 2008/09 PRF is available from Audit Scotland's website (http://www.audit-scotland.gov.uk/docs/local/2008/prf_0809_localgov.pdf)

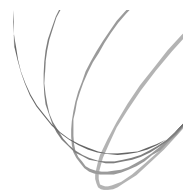
Links with the audit of Best Value

19. In November 2008, the Scottish Government announced a series of proposed reforms to the scrutiny landscape in response to the Crerar report. Audit Scotland, on behalf of the Accounts Commission, is developing a shared approach to risk assessment and planning to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.
20. As part of a more integrated approach to scrutiny we are developing an overarching corporate assessment framework which reflects our theory of improvement, that effective leadership, good governance and sound management are necessary conditions for the delivery of sustainable continuous improvement and effective outcomes. The corporate assessment framework will be used as a primary component of our revised approach to the audit of best value and will also be reflected in the Priorities and Risk Framework (PRF) process and our audit planning.
21. Outputs gathered through the application of the PRF, other intelligence such as Best Value findings and follow-up work; the views and risk assessments of inspectorates; self assessments and other performance analysis are playing a key part in ensuring that the second round of Best Value audits (BV2) is proportionate and reflects the national context and local circumstances. The PRF process is making an important contribution to streamlined scrutiny.



Overview of Highland Council

22. The Highland Council's area covers the largest land mass of all Scottish local authorities comprising 33% of the country (26,484 square km), including a number of inhabited island communities. It has a population of over 219,000. The administrative centre of the council is in Inverness, which is a fast growing commercial, retail and business centre that was awarded city status in 2000. Outside the inner Moray Firth, the area is one of the most sparsely populated areas in the United Kingdom. These factors give the council significant challenges in determining how to make the best use of its resources by balancing the demands of its urban and rural areas.
23. A best value report on the council was published in April 2006. The report concluded that:
 - the scale and geography of the area presents significant challenges to the efficient delivery of services. The current structure for local service delivery recognises the diverse nature of the area, but fails to capitalise on all opportunities for service responsiveness and efficiency
 - there is a strong tradition of community engagement and elected members provide strong local leadership and participate enthusiastically in council wide debate. However, local issues can predominate, resulting in too many priorities that are difficult to sustain
 - services are generally well managed and there have been performance improvements in many areas. Driving further improvement will require the sustained efforts of all members and senior managers combined with a more corporate approach to strategic development.
24. The council developed an improvement plan in response to the issues raised by the audit and we concluded in previous Report to Members that the council has made significant progress in implementing the agreed best value improvement plan with eight of the nine immediate improvement actions and all of its medium term priorities completed.



Highland Council's strategic risk analysis 2008/09 – 2010/11

Structure of the analysis

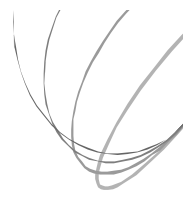
25. As part of a more integrated approach to scrutiny, we have reported the results from this analysis using this year's PRF headings, which will also be used to develop the corporate assessment for Best Value 2 (BV2).

Vision and Strategic Direction

26. Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community. Member and officer leadership of the council are responsible for promoting this vision effectively and ensuring its achievement, with support from staff and partners. The overall aims should be backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery.
27. A council's vision should reflect a clear sense of purpose where the council understands the contexts in which it and its partners are operating; has set out a clear vision of how it will work with partners and is based on the views of local communities, citizens and customers.
28. The council's ambitions should be stretching and challenging, making a real difference for local people. However they must also be realistic and achievable and reflect the scale of the issues and opportunities based on a mature and accurate assessment of the council's current performance position, and capacity to improve.
29. The strategic direction of the council will be supported through open and inclusive leadership and a culture where the process for prioritising council activity is open, fair and inclusive. Effective communication and engagement should clearly communicate the council's vision and priorities. The council should demonstrate that it maintains its focus on core priorities and is not distracted by difficulties such as minor operational matters. A clear direction of travel for the council will be achieved through a well aligned system for service and resource planning.

Political governance

30. The advent of a political administration and effective opposition, together with the introduction of a revised committee and administrative structure is increasing scrutiny and debate. Political parties generally demonstrate a professional and strategic attitude in their style and approach. This is evidenced in discussions in committee meetings, where minor points are not generally allowed to overshadow strategic considerations.
31. Agenda papers and presentations to committees from officers provide good evaluation and clear proposals. Decisions are clearly stated in minutes that are readily available to the public and other stakeholders on the internet.



Vision and communication

32. There is a clear and consistent commitment to a variety of programmes and initiatives which show vision and these are reflected in 'Strengthening the Highlands' and the council's corporate plan 2009-2011 which was approved in December 2008. This vision is also reflected in the multi-agency approach to the council's Single Outcome Agreement (SOA). The council remains focussed on its vision/ key objectives even when addressing political or financial pressures.

Single outcome agreement - approach and integration

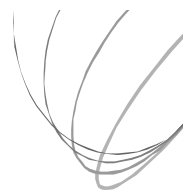
33. There is a multi-agency approach to Highland's Single Outcome Agreement. Community planning partners have a shared acceptance of the need to collaborate effectively to meet the significant challenges that exist within the Highlands. Partners recognise the linkages between key areas such as healthy living, employment and crime and that these issues need integrated approaches. The council recognises that partnerships arrangements may be more challenging in the current financial and economic climate.

Governance and accountability

34. Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local authorities operate is based on sound decision-making and an effective process to support it. CIPFA/SOLACE's 'Delivering Good Governance in Local Government Framework' and an accompanying guidance note for Scottish authorities were published in 2008.
35. The guidance includes a self-assessment framework and auditors will be encouraging self-assessment to be used by councils. The guidance also links this form of self-assessment to the concordat and honest self-assessment may be expected to lead to more proportionate audit arrangements. The council have already indicated their support for this approach using the Public Service Improvement Framework.
36. Increasingly councils are working with companies, trusts and other external organisations to deliver a range of services, such as leisure and other services which provide social benefit. The important principles set out in the 'Code of guidance on funding external bodies and following the public pound' (published jointly by the Accounts Commission and COSLA, in 1996) are therefore of increasing relevance. The Code and the Accounts Commission's 'Following the Public Pound' national performance report (published in March 2004) underlines the need for good governance and clear accountabilities, in relation to both finance and performance. Where councils set up or engage external organisations to deliver services and decide that elected members are to represent the council on boards of companies or on trusts, councils must ensure that those members are properly supported and that they are clear about their roles and responsibilities.

Caithness Heat and Power

37. In August 2008 the council agreed to take over Caithness Heat and Power (CHaP), appoint members of the council to the Board and consider options for the future operation of the company. To reflect the



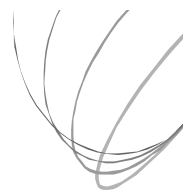
financial liabilities of CHaP, the financial statements for 2007/08 included a provision for financial guarantees of £6.8m and a contingent liability £2.9m in respect of possible repayment of funding from the Energy Savings Trust if funding conditions are not met. The position and potential liabilities arising from CHaP were identified as soon as the problem was recognised and reflected as a post balance sheet event in the 2007/08 statements. Our Annual Audit Plan highlighted this as a specific risk in relation to the 2008/09 financial statements and we will be reviewing how this project is disclosed in the financial statements. The council has acknowledged however that the risks arising from ChaP are wider than purely financial considerations. Internal Audit are in the process of reviewing the project and a report is expected as a priority. This will provide greater clarity in identifying and mitigating the risks arising from this project. In particular we will be looking for this report to consider whether or not the project received sufficient scrutiny and what caused the failure of the project. We will review the action taken by the council to ensure that lessons have been learnt and that similar issues could not arise in the future or on other projects where the council has an interest covered by 'Code of guidance on funding external bodies and following the public pound'.

Political governance

38. A new administration, following the May 2007 elections was formed with a coalition of Independent and SNP Members. This was a significant change for the council which had previously been independent and, as such, did not have group leadership. In July 2008 further political changes were instigated as a result of a breakdown of the Independent/SNP administration; the council's new administration comprises the Independent, Liberal Democrats and Labour groups. The new political environment since 2007 has facilitated the council in moving forward and tackling strategic issues within the Highlands through providing the necessary direction, scrutiny and challenge to meet the aspirations of both the initial Programme for Administration and the current programme 'Strengthening the Highlands'.
39. The Audit and Scrutiny Committee can, as part of its remit, undertake scrutiny reviews of the performance of the council and funded third party organisations against service delivery and make recommendations as appropriate. The first review into small businesses was completed earlier this year and Internal Audit are currently assisting the committee in developing a formal protocol and approach to future scrutiny reviews by the council.

The role and development of elected members

40. The Programme for the council included a commitment to agree an annual training and development programme for elected Members and to introduce role descriptions and personal development plans. Role descriptions have been recently approved (March 2009) and are being used as a basis to progress personal development plans for all Members and to identify additional training needs or gaps.
41. The council provides an extensive programme of training and development opportunities to all members and this has been enhanced through the results of the Training Needs Survey carried out in November 2007.
42. The council provided a programme of induction training to all new and returning members of the council following the May 2007 elections including training on regulatory matters such as planning and



licensing. This has been followed by a range of training on various topics, individual training and access to a range of in-house ICT training courses.

43. Officers identified that the take-up of training has improved and that members are more likely to attend training which they consider useful to them. The challenge for officers is to provide training appropriate to members' varying needs and knowledge levels. The Training Needs Survey which had a response rate of 50% of Members has provided a good starting point for identifying common topics where training is required. This will be further refined when personal development plans are introduced.

Internal Audit

44. Internal audit is an independent appraisal function established by management for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
45. The work of internal audit follows a risk based approach and the internal audit plan for the year is agreed by the Audit and Scrutiny Committee. Internal audit have been unable to complete the agreed plan for this year as a result of resource shortages, work on unplanned activity and some work exceeding the budget. The largest piece of unplanned work relates to the investigation of issues relating to CHaP which is one of the current risk areas to the council. The Audit and Scrutiny Committee have been kept abreast of the difficulties and are aware of the position. The effect of the 'slippage' increases risk to the council over the coverage of internal control systems within the council.

Working with external organisations

46. The council are involved in a number of projects and initiatives with third parties. One of the most significant projects is Pathfinder North which is designed to implement a high-speed future-proof broadband network across the Highlands and Islands local authorities. Highland Council has the lead role and is one of five local authority partners involved in the project. Funding of £61m has been made available by the Scottish Government and a further £9m is being contributed by the partners. The contract has been awarded to THUS plc (now Cable and Wireless). Performance against the contract is behind schedule mainly as a result of technical difficulties affecting the rollout schedule. However this is being managed by a Project Board which includes all partner authorities. Regular reports are being submitted to members to keep them abreast of the situation.
47. The Scottish Government has actively promoted the concept of 'shared services' between public sector bodies. Highland are involved in the NOSLA (North of Scotland Local Authorities) Shared Services project which involves seven local authorities looking at the feasibility of sharing operational services in council tax, benefits and non-domestic rates. The councils involved need to maintain momentum on progressing the project.

Immediate priorities and risks

- consider the internal audit report on CHaP and agree the course of action to be followed
- introducing personal development plans for all members and using these as a basis for determining and developing training and development opportunities that are appropriate to members' needs



- ensure internal audit coverage is sufficient to provide assurance to management on the adequacy of internal control systems
- continue to monitor and report on the progress of Pathfinder North and take corrective action where appropriate.

Longer term considerations

- maintaining the momentum to drive forward the NOSLA shared services project.

Partnership working and community leadership/ engagement

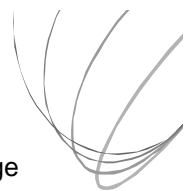
48. This section focuses on those risks which councils need to manage in relation to their involvement with a wide range of partnerships. More specifically, it concerns councils' duties under the Local Government in Scotland Act 2003 to initiate, facilitate and maintain a Community Planning process and their role in ensuring effective leadership within local Community Planning Partnerships.
49. Audit Scotland's baseline study on community planning, *Community Planning: An Initial Review*, June 2006, identifies the challenges then facing community planning partnerships (CPPs). It makes recommendations for action by councils, partner organisations and CPPs themselves. Many of these challenges remain and councils should be using the evaluation framework within the report, along with other improvement tools, to improve the effectiveness of partnerships. Highland Council has embraced the report and continues to use the evaluation framework to strengthen and improve the partnership.
50. The majority of ring-fenced funding was removed as part of the concordat and councils are now able to retain their efficiency savings for the first time. This coupled with partner organisations' contributions towards SOA outcomes, means that partnerships have the opportunity to co-ordinate resources more effectively.

Governance and Accountability

51. The Highland Community Planning Partnership (CPP) was established to manage the community planning process to bring key public, private, community and voluntary representatives together with the aim of delivering better, more joined-up public services in the highlands. As partners were fully involved and jointly committed to the first Single Outcome Agreement (SOA) they have adopted this as the new 'Community Plan'. The involvement of partners at an early stage was recognised as good practice by the Scottish Government and demonstrates the commitment of the council and partners to joint working.
52. Work is currently ongoing to streamline partnership working arrangements and develop new forums for stakeholder engagement. The development of the relationship with the 'third' sector is being progressed and work on developing a compact with the voluntary sector is expected to be concluded and agreed in early 2010.

Community Engagement

53. There is evidence of community engagement within partnership work and this was highlighted as an area where Highland Council was relatively strong in the 2006 Best Value Report. However the



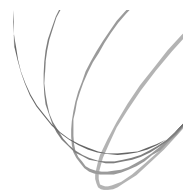
partnership has recognised that as a result of the increasing complexities there is a need to manage present activity to ensure that community engagement is co-ordinated and effective. The partnership is therefore currently looking to complete a framework for the whole range of customer contact by the end of this year. The introduction of Ward forums has enhanced the opportunity for community engagement.

Longer term considerations

- ensuring that clear governance structures are in place and partners agree on their respective roles and are accountable for the delivery of the SOA.

Performance management and improvement

54. Good governance and the achievement of Best Value rely on having good information on which to base decisions about allocating resources to competing demands, improving service delivery and managing performance. Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.
55. The Controller of Audit's 2007 overview of the local authority audits concluded that the lack of consistent and robust performance information limits an in-depth analysis of service performance in councils.
56. The concordat between the Scottish Government and local councils set out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government for the period 2008/09 to 2010/11. A central proposal was the creation of a National Performance Framework that includes the Single Outcome Agreement (SOA) between each council, their partners and the Scottish Government based on 15 key national outcomes.
57. Councils are currently seeking to assess their existing information, identify gaps and review their performance management systems so that the SOA is part of the process rather than a separate or additional reporting mechanism. Good performance management will convert the aspirations for high level outcomes contained in the SOAs into concrete plans and actions. Effective and regular monitoring of progress will ensure that the right direction is being maintained and will identify any corrective action needed. This will increase the likelihood of targets and outcome objectives being achieved.
58. Good quality performance information is essential for informed decision making and allows elected members to scrutinise performance and hold management to account for service delivery. Councils also require accurate performance information to report regularly to the public on all aspects of their activities.



Corporate priorities

59. The council's overarching aims, as detailed in 'Strengthening the Highlands' and the Corporate Plan are:

- making the Highlands one of Europe's leading regions
- creating sustainable communities with more balanced population growth and economic development across the Highlands
- building a fairer and healthier Highlands.

The plan contains five key services themes on which the council will focus on over the next three years:

- children and families
- communities and older people
- the economy
- the environment
- making Highland Council more effective and efficient.

60. To support the overarching aims and the five themes, organisational values will be developed in 2009 to guide the way the council operates and how staff go about their daily work.

61. Each service has its own budget and service plan. The 2009/10 budget and service plans are being aligned to the new corporate priorities and the SOA and will be approved by Service Committees in the May/June 2009.

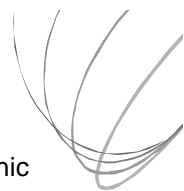
Monitoring performance

62. The council has an integrated performance management framework which is linked to the objectives and outcomes contained within the corporate plan 2008/2011. The arrangements in place include:

- three-monthly reports on each service's 'measures of improved performance' to Chief Executive, Deputy Chief Executive and Assistant Chief Executive
- regular reports to the relevant strategic committees
- yearly service and annual performance reports to strategic committees and the Council.

63. Strategic objectives in the council plan are supported by individual outcomes and targets and the majority of the council's SOA indicators are in the corporate plan.

64. Although Services report quarterly performance information which is subject to discussion between the Chief Executive and respective Service management teams, the information is not in a fully consistent format. This in itself does not detract from the quality of the information; however the Council should develop a standard framework for all services. The quarterly performance information is routinely accessible on the intranet to contribute to the overall effectiveness of performance management within the Council.



65. The council are looking to automate the performance monitoring process by introducing an electronic system. The project has been scoped and is undertaking a QA process to shape requirements. It is anticipated that this should be operational in 2009/10 and that it will integrate risk management processes.

Monitoring the Single Outcome Agreement

66. For 2008/09 most of the improvement indicators are contained within the performance frameworks of individual partners with the council providing a co-ordinating role to enable joint management and scrutiny to support performance reporting.

Immediate priorities and risks

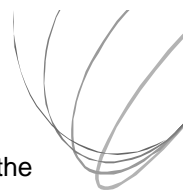
- further developing the performance management framework to enhance the performance information available, including SOA outcomes
- ensuring consistency between services in monitoring and reporting performance information.

Risk Management

67. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.
68. Local authorities in Scotland operate in a dynamic environment and face an increasing demand for diverse and higher quality services, within an overall context of tighter financial settlements. As expectations increase and methods of delivering services become more diverse, local authorities inevitably face more risks. Good risk management is necessary to address these risks, and is important for ensuring public services are delivered effectively and that councils are well run.
69. Councils with mature governance arrangements embrace the concept of risk, recognising that awareness, discussion and management of risk represents strength in their management arrangements.

Policy, strategy and procedures

70. The Highland Council Risk Management Strategy and the Risk Management Policy Statement stress the importance of integrating risk management into the culture of the council and adopting procedures to ensure that systems for managing risk are in place and are operating effectively throughout the organisation.
71. The council's policy is to embed risk management throughout the council and includes the operation of a risk management group representing all council services. This acts as a focal point for raising awareness of risk, monitoring risk, and taking forward risk and loss control initiatives.



72. The strategy defines the roles and responsibilities of the members, the senior management team, the risk management group, service managers, the risk manager, internal audit, all staff and the Audit and Scrutiny Committee.

Corporate risk management

73. The Audit and Scrutiny Committee carries out a review of corporate risk twice a year. The committee receives a report on Corporate and Cross Cutting Risks (CCCR) which includes an assessment of each risk ranked according to the combination of impact and probability in each case.
74. The senior management team has the responsibility for ensuring that risk management is embedded in the council's culture. Their role includes identifying and reviewing risks and giving advice to members on the risk management implications of decisions. They also have a role in ensuring that services have effective risk management procedures in place.
75. Corporate risks are reviewed every two months by the Senior Management Team and also feature in the council's quarterly performance review process. The corporate and service risk registers are included on the council's management intranet and are available to all staff.

Service risk management

76. Each service maintains its own risk register. Service management teams meet with the Chief Executive as part of the quarterly performance review process. Key risks identified at service level and scored as "above the line" in terms of impact and probability are fed through to feature in the corporate risk register.
77. Service directors have input to the risk management process through the Senior Management Team. Other representatives from each service can have input to the process through meetings of the risk management group.

Partnership risk management

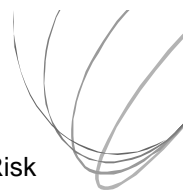
78. The council's assessment of risk at corporate level includes reference to the effectiveness of partnership working and community planning. The corporate risk register includes the risk of not achieving the targets within the Single Outcome Agreement. Other risks associated with partnerships and joint working relating to specific services are reflected in the risk register.

Project risk management

79. Our report to members on the 2007/08 audit referred to slippage in spending on capital projects in the general fund capital programme. The council has taken steps to reduce the risk of further slippage in 2008/09 by closely monitoring the position and being prepared to change plans to deal with any variances.

Officer and member understanding and ownership

80. The council's Risk Management Strategy explains the different roles and responsibilities of officers and members relating to risk management. These range from high level management of risk at member

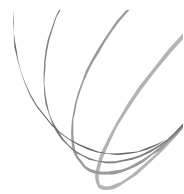


level cascading down to risk management within services via the Senior Management Team, the Risk Management Group, and Service Risk Managers.

81. Detailed guidance on risk management, including help on identifying risk, is available to officers and members of the council's management. Members of the Audit and Scrutiny Committee have been given a presentation on risk management and staff have received training through a series of risk management workshops.
82. The council has dedicated staff resources for risk management. The Head of Internal Audit & Risk Management has overall responsibility. He is supported within his section by the Insurance and Risk Manager who is responsible for the day to day administration of risk management within the council as a whole.

Financial Management

83. Councils administer large sums of public money within a complex financial and political environment, often as key partners in delivering central government and local policy objectives. Financial management is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.
84. Good financial management is about efficiency, effectiveness, best value and tight financial control. Councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly. The Audit & Scrutiny Committee should have a tight grip on the challenge and scrutiny of budgetary control and financial reporting systems.
85. Because of challenging constraints on resources, councils must make increasingly difficult decisions to balance demands for improvements in both the volume of services delivered and in the performance of those services.
86. Councils are reporting significant financial pressures in 2008/09 and beyond, including:
 - equal pay (addressing disparity between male and female pay and conditions) and associated legal costs
 - single status (the cost implications of merging the pay and working arrangements for APT&C and manual employees)
 - waste initiatives (incorporating the National Waste Strategy, working towards meeting the EC Landfill Directive, recycling targets and refuse collection)
 - education pressures (including reducing class sizes, free school meals and increasing the quality of school estates)
 - increases in costs above inflation in significant areas e.g. energy
 - increasing demands and pressures in relation to social care services
 - cost of living pay award increases for employees.
87. There have been a number of events in the global economy and banking system in 2008 that are likely to have significant medium and long term implications for the financial pressures and risks faced by councils. In the short term risks include:



- councils and other bodies with money invested in collapsed banks
- capital expenditure delayed due to the reduction in capital receipts from a depressed property market
- PPP projects being delayed or cancelled due to a lack of funding
- asset sales may not proceed as they are not considered to provide Best Value in current conditions.

88. In the medium to longer term, challenging economic conditions may lead to:

- tighter government funding as the economy slows down
- higher demand for certain services as unemployment rises
- declining revenues from commercial or charging activities as demand falls.

89. Councils themselves may encounter opportunities to acquire assets for development at lower than expected prices and there may be an expectation by central government that capital programmes are accelerated to boost the construction sector in the downturn.

90. Global events may also have far reaching consequences for local authorities' pension funds. The latest triennial revaluation has recently been completed and will shortly be presented to the Investment Advisory Group. Employer contribution rates may come under further pressure as a result of lower pension asset valuations.

Budgets and budgetary control

91. The Highland Council budgets for 2008/09 were prepared on a service by service basis and were considered initially by the relevant service committees. Budget demands were then prioritised by the cross-party Budget Working Group (now replaced by the Budget Information Group) before submission to the full Highland Council for approval.

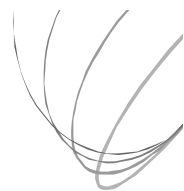
92. The council has mechanisms in place for preparing and costing budgets on a consistent basis and has assessed the impact of financial pressures and identified savings during the budget process. The council has a robust budget monitoring process in place and monitoring reports for both revenue and capital budgets are submitted to service committees on a frequent and regular basis. Both national and local financial pressures were taken into account in compiling the budgets.

National influences

93. The concordat between COSLA and the Scottish government underpins the funding to be provided to local government over the period 2008/09 to 2010/11. The council's budget has taken the terms of the concordat into account including the required freeze on council tax.

94. Central to the concordat is the SOA between each council and the government. The council's budget makes reference to the ongoing process to align the SOA to corporate priorities.

95. The budget also refers to the reduction in ring-fenced funds and suggests that the timing of the grant settlement was such that there was insufficient time to fully consider the extent to which the additional



flexibility could be applied to the budget. However the council's detailed budget book does include some adjustments for the reduction of ring-fenced funding.

Financial Governance and Reporting

96. The Director of Finance is also the Depute Chief Executive and as such has a pivotal role in the development of financial planning and capital expenditure. The structure of the finance service includes a framework of service finance teams led by experienced finance managers. New members undertake a programme of induction and training which includes issues relating to financial governance.
97. The timing of reports to members is governed by the cycle of committee meetings. Financial reports on services are submitted to the appropriate service committees. Reports on financial issues affecting the council as a whole are submitted to the full council. The main example of public performance reporting on financial issues is the publication of the council's annual report and audited accounts which includes reference to performance against budget and other performance issues.

Balances and Reserves

98. The council's budgets for 2008/09 and 2009/2010 outlines the strategy on the retention of balances. A level of non-earmarked General Fund balances equivalent to 3% of the net budget is to be retained. This would be equivalent to £17m based on the budget for 2008/09 (and the proposals for 2009/10) and is consistent with the level of balances retained in previous years.

Immediate priorities and risks

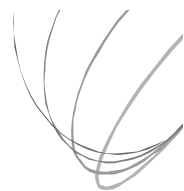
- Managing pressures in the budget arising from the concordat with the Scottish Government and the current economic climate.

People management

99. The successful achievement of council objectives and the delivery of high quality services, whether directly by council staff or by others who are monitored by council staff, depends on the capacity, capability, competency and motivation of the workforce.
100. Workforce related issues are currently at the forefront of local government business, as councils continue to deal with outstanding equal pay claims including those at industrial tribunal. In addition, a number of councils have yet to implement the single status agreement. Councils also need to implement the age discrimination legislation that was introduced in October 2006 and consider the proposed changes to the local government pension scheme. The financial implications of all these matters are significant and will affect employer/employee relationships.

Single status

101. Following a short delay arising from issues raised by the Equality Impact Assessor the results of the Council's job evaluation system was notified to staff in February 2009. For the majority of staff this will result in an increase in pay and £7.5m has been set aside in this financial year to implement the new pay structure. It is anticipated that this figure will rise to £14m per year over the next 5 years.



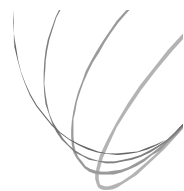
102. A number of staff, mainly those involved in clerical/administration and manual staff in Housing and Property Services and Transport, Environmental and Community Services, have been advised that their pay will reduce at the end of the three year protection period. An appeal system is in place and any staff wishing to appeal have until 8 May 2009. The challenge will be to carefully manage the ongoing process over the next two years to minimise any negative impact on staff morale. To assist in this process the council are committed to working with Trade Unions over this period. A transition programme, which will include reviewing service structures with potential for redesigning jobs to provide opportunity for staff to move to new roles, will be put in place.
103. The exercise to fully harmonise terms and conditions of service for staff is still work in progress. Although the numbers of staff likely to be adversely affected by harmonisation is relatively small in terms of the total staffing complement the exercise needs to be implemented as a priority to minimise staff uncertainty and disruption within the organisation.

Equal pay

104. Over 93% (1700 employees) have accepted the last equal pay offer by the council with £4m being invested in the process. Detailed reports are provided on the position to the Modernising Employment Sub Committee. It is anticipated that there will still be around 1100 equal pay cases outstanding.

Workforce management

105. The council has established a framework for a co-ordinated, corporate approach to workforce planning and staff development through the implementation of its workforce management plan. This plan facilitates the council in its aim to ensure a suitably trained workforce to meet current and future demand for services.
106. The last staff survey was undertaken in late 2007. Some issues were highlighted by staff and resulted in five corporate improvement themes being identified:
- Communication – commitment to increase the effectiveness of organisational communications and communication within the services and improving the consistency of information available.
 - Personal development/training and career development – commitment to roll-out personal development plans to all staff by March 2009 and ensure appropriate training and development opportunities are available.
 - Pay, terms and conditions and working arrangements – commitment to introduce a fair pay structure with harmonised terms and conditions of employment with effective support and communications provided for all changes to working arrangements and to manage workload and stress.
 - Equipment and environment – provide a healthy, safe and supportive working environment and work to improve the workplace accommodation for all staff.
 - General – increase staff morale and motivation by strengthening managers' skills in communication, people and performance management and the management of change.



107. The corporate improvement themes were incorporated into an action plan and monitored by the Employee Survey Reference Group, which has representatives from all Services. The plans have been reported to and discussed with the Joint Consultative Group and progress has been reported to Resources Committee. Staff will receive a full update in the autumn.
108. The council have for a number of years sought to progress the implementation of the personnel module of the ResourceLink system. Our report in autumn 2007 on the progress in developing this module identified twelve key risk areas in relation to the development. The council responded positively to the report and the agreed actions have either been actioned or are being implemented. However the problems and delays with the personnel module have meant that the benefits of the system in supplying in-depth, detailed staffing information have not yet been fully realised.

Immediate priorities and risks

- management of the job evaluation appeals
- implementation of harmonised terms and conditions for relevant staff.

Longer term considerations

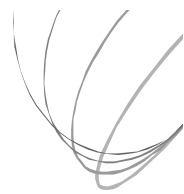
- progressing the implementation of the personnel module to ensure full and detailed staffing information is available to inform future decisions.

Asset management

109. This section of the PRF focuses on the strategic and operational management of assets. The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital savings, and improve value for money in service delivery. There can be a considerable opportunity cost in holding assets, such as tying up resources in retaining property not in use or not fully utilising assets.
110. Best value requires councils to demonstrate the sound use of the resources in their control, covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as vehicle fleets, stock, IT and other equipment.

Strategic planning

111. In November 2007 the council approved the Corporate Asset Management Plan. Development of the plan features as an objective in “Strengthening the Highlands”, the council’s programme for 2009 to 2011. A progress report submitted to the council’s Resources Committee in June 2008 advised members that there is still a great deal of work to be done and full implementation of the asset management plan could take another two years.



Information management

112. The progress report gave the following information on the council's property:

- 55% of the council's property is in satisfactory condition
- 60% of the property is considered suitable for current use
- 70% of the buildings used by the public are DDA compliant
- 10% of council houses comply with the Scottish Housing Quality Standard.

An Asset Management Team of staff from the Housing and Property Service has been formed to pursue the asset management agenda.

Immediate priorities and risks

- maintaining progress with implementation of the asset management plan.

Longer term considerations

- achieving full compliance with the Scottish Housing Quality Standard.

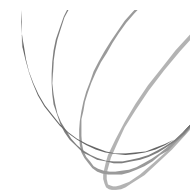
Procurement

113. In March 2006, the McClelland Report was published and it concluded that in most areas examined the main public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated that these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.

114. This challenged local authorities to make significant improvements in procurement in a relatively short time frame. The complexity and scale of rising to this challenge demand the initiation and management of a co-ordinated programme or work. In most local authorities a programme of work has commenced and includes initiatives at all levels and across all organisations within local government, including:

- changes to policy
- delivery of cross-sector collaboration and structures to support it including the establishment of a centre of expertise (Scotland Excel)
- improving procurement management information
- enhancing skills and practices
- improving procurement efficiency (e-procurement)
- improving supplier relations.

115. To provide an update on progress, in December 2007, the Scottish Local Authorities Chief Internal Auditors' Group published the results of a national review of local authority compliance with best practice procurement arrangements set out following the McClelland Report which reported overall compliance at 50 percent.



Procurement strategy

116. In October 2008 the council approved a procurement strategy which outlined the following objectives:

- Governance – procurement structures to deliver measurable savings focused on operational service delivery.
- Purchase to Pay and the Digital Toolkit – procurement structures to be managed to achieve best value and sustainability using latest e-procurement tools.
- People and Skills – consistent level of competence in line with CIPS accreditation.
- Strategic Sourcing – principles of challenging, comparing, consulting and competing in line with Scottish Government's Best Practice toolkit.
- Performance Management – accurate reliable and auditable procurement information which should be measurable and stand up to external scrutiny.

117. The strategy was prepared in line with the recommendations of the McClelland report on public procurement and aims for full implementation by 2011. A report by internal audit in August 2008 concluded that the council had already exceeded the basic requirements for compliance with McClelland but that further improvements could be made to ensure full compliance.

Immediate priorities and risks

- maintaining progress with implementing the procurement strategy.

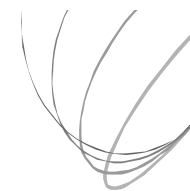
Information Management

118. Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency. ICT investment carries a significant risk of over-spend with new technologies and transforming working practices presenting challenges for improving governance and internal control. In the last few years, local authorities have invested in e-procurement, contact centres and better web-sites, as well as improved ICT infrastructure. In many cases, these services are operational and should now be achieving their objectives.

119. The Data Protection Act 1998 (DPA), Freedom of Information (Scotland) Act 2002 (FOIA) and other pieces of legislation increase the requirements for effective information management across all aspects of local government. The public and other stakeholders have a need for easy access to information. They also have a higher awareness of data protection and information issues.

Data handling & security

120. There is a degree of sharing of client information between services through the Customer Relationship Management system. Local services and offices handle a lot of personal and sensitive information on a daily basis. Corporate guidelines should be in place to establish a sound data handling environment and mitigate the risks of data loss or non-compliance with legislation.



Citizen information

121. The council expects to be connected to the National Infrastructure and Citizen's Account during 2009. Work on entitlement cards is progressing. Progress is expected in 2009 towards standardising the various cards currently in use across the council.

ICT reprocurement

122. The Highland Council's contract with Fujitsu Services for Managed ICT services is coming to the end of its term. Currently, the Council is undertaking a procurement using the Competitive Dialogue process for the services that will be delivered subsequent to the expiration of the contract.

123. A key risk is the control framework in place to manage the ICT reprocurement project. The current contract has already been extended on several occasions to accommodate the reprocurement process. The challenge for the council will be to ensure that key project deadlines are kept on target as any slippage could have significant financial and service delivery implications for the council.

124. In addition, consideration of value for money should be guiding the decision making process during the reprocurement phase. This includes comprehensive evaluation of the services to be included in the new contract, as well as consideration of in-house versus outsourced service delivery.

Government initiatives

125. An initiative being developed by the Scottish Government as part of the Customer First Programme is the OneScotland Portal which will provide convenient access to public services and information in Scotland. The council will continue to participate in this initiative as it develops.

Infrastructure

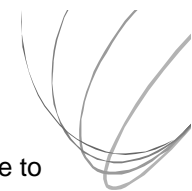
126. Our report to members on the 2007/08 audit noted that the council had recognised the need for improvements in their arrangements for business continuity and ICT failures. In September 2008 the council appointed a new Emergency Planning and Business Continuity Manager with responsibilities for developing business continuity planning.

Immediate priorities and risks

- adopting a corporate approach to data handling
- managing the ICT reprocurement project effectively to achieve value for money
- progressing with improvements to the arrangements for business continuity planning for ICT failures.

Service priorities and risks

127. The Scottish Government emphasis on streamlined, better co-ordinated scrutiny means that it is important that audit and inspection agencies understand each others' businesses, be aware of the risks in each of the sectors, and share intelligence to avoid overlap and duplication of scrutiny activity.



128. Key to this agenda is the Scottish Government's request to the Accounts Commission (in response to Crerar recommendation 38), to put in place arrangements to streamline and reduce the burden of scrutiny for local authorities by gate-keeping corporate scrutiny activity and co-ordinating service inspection.
129. The recent announcement that Highland Council will be a BV2 Pathfinder and shared risk assessment development site will provide an early opportunity to improve streamlining and co-ordination of inspection activities.

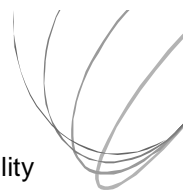
Cross cutting issues

Diversity and equality

130. Equality and diversity are widely recognised as fundamentally important factors in the sound management of a modern, effective organisation – whether in the private or public sector. Equalities legislation has developed piecemeal since the 1970s to the point where there are now nine major pieces of discrimination legislation; around 100 statutory instruments setting out connected rules and regulations; and more than 2,500 pages of guidance and statutory codes of practice. The legislation that may apply in a particular set of circumstances is not always obvious. Certain legislation is specific to a particular equality strand, such as race or gender. Other legislation is more generic and touches on all equality strands.
131. In November 2008 the Accounts Commission published a report titled 'The impact of the race equality duty on council services'. The report found that while councils have developed policies on race equality they now need to ensure that these have a positive impact on people from minority ethnic communities, through the design and delivery of services. The report concludes that councils need to build a better understanding of the needs of their minority ethnic communities; mainstream their approach to race equality; and give more priority to race equality in delivering services.
132. The council have the required equality schemes in place and are currently working on integrating these into a single scheme by the end of 2009. Equality issues are explicit in service plans and the policies are monitored and screened for relevance on a quarterly basis. Regular performance and feedback is given to the management team to ensure that equalities issues are considered in all aspects of the council's work. A screening tool has been adopted to assist in 'equality screening' within the council and this has been applied to key processes, including budget setting, to ensure equality considerations are recognised and taken into account. The proposed integrated scheme will cover services provided by the council, all staff and specific requirements in relation to education provision.
133. The council's 2009/11 Corporate Plan reinforces the council's commitment to promote equalities and to tackle discrimination and disadvantage as an employer, in providing public services, in community leadership and partnership working.

Sustainability

134. Best Value audit work to date highlights that in relation to sustainability, the primary focus of councils have been on waste management and energy management, where they have been supported in recent



years by external funding. There is a risk that progress towards the government's wider sustainability agenda and proposed targets will be insufficient. At present the majority of local authorities are unable to demonstrate their contribution to sustainability and there remains significant scope to develop performance management systems and introduce quality of life indicators to strengthen this.

135. Highland Council, in common with many other councils, faces the ongoing challenge of meeting the Government's targets for zero waste recycling targets which progressively become more demanding over the period 2010 to 2025. Additionally, as a result of the way in which the UK and Scotland have implemented the Landfill Directive, Scottish councils must meet landfill diversion targets or face the possibility of significant financial penalties. The Landfill Allowance Scheme (LAS) is currently under review by the Scottish Government and COSLA; however it remains possible for penalties (£150 per tonne) to be applied retrospectively and to future years. Further, where Scottish councils are responsible for the UK failing to meet its Directive target any fines imposed by the European Court will be passed through to those Councils. The council has failed to meet its LAS target from 2006/7, and based on current projections the council will continue to be in such a position and therefore may be liable to penalty for future years and at least to the second target year of 2013.
136. Local authorities play a pivotal role in helping achieve the Scottish Government's overall purpose to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. Our approach to auditing their contribution to this and their impact on climate change is developing and will be shaped in the near future by the introduction of climate change legislation.
137. The Climate Change Working Group has been the council's main vehicle for considering sustainability issues. However a new group – the Land, Environment and Sustainability Strategy Group – has recently been set up and this widens the remit and coverage of the sustainability agenda. Work is ongoing in developing the council's aims of reducing greenhouse gas emissions and adapting services to deal with global warming. The council have signed up to the declaration on climate change and are progressing the agenda in this area through the SOA and partnership groups. The council is only one of five in Scotland to be Carbon Trust accredited.

Longer term considerations

- Significant financial penalties may be incurred by the council under the Landfill Allowance Scheme in future years.



Strategic risk plan

138. This report summarises the key risks facing the council. At Appendix A, in our strategic risk plan, we set out the audit work that we will undertake on these risk areas. As the risks included in this report are high level and strategic in nature, they will continue to be relevant to the council for a number of years. Therefore, although our risk analysis will be updated annually, many risks will remain from year to year and the risk analysis will cover a rolling three year period.

139. Our plan reflects:

- the council's local risks and priorities
- current national risks relevant to the council's circumstances
- our responsibilities under the Code of Audit Practice as approved by the Accounts Commission (our annual audit plan 2008/09 sets out more detailed information on our responsibilities, approach, quality control and fees)
- issues brought forward from last year's audit (cross-referred where relevant to agreed actions in the Members' Report).

140. The strategic risk themes mirror the topics identified in the Priorities and Risks Framework. In many cases actions are either planned or already underway within the council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in the plan.

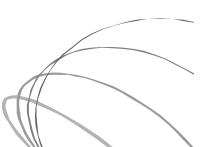
141. Where risks have a possible impact on the financial statements of the council they may have already been reported in our Annual Audit Plan.

142. It is in the nature of risk that the likelihood of occurrence and potential impact are variable – the absence of assurance arrangements does not necessarily mean that identified risks are statements of fact. Councils may also choose to accept, or be unable to mitigate, certain risks.

Monitoring and reporting arrangements

143. Our risk assessment work has confirmed that the council has action plans in place to address the risks identified. In these areas we will monitor the progress of the management assurances we have received as specified in the strategic risk plan. Any significant matters which arise from our monitoring activity will be reported on an exception basis and may be included in our annual report on the audit.

Appendix A



Highland Council – strategic risk plan

Strategic risk plan - In this section we identify a wide range of strategic risks facing the council, the related management assurances received and the audit work we propose to undertake in the coming years to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks. In some instances planned audit work will include ongoing monitoring of risks throughout our audit appointment.

Vision and strategic direction

Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community.

We have carried out a high level review of this area as part of our Strategic Audit Risk Analysis, but have not identified any immediate strategic risks here that have not been included elsewhere within this report.

Governance and accountability

Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local authorities operate is based on sound decision-making and an effective process to support it.

No	Risk	Management assurances	Planned audit action
1.	<p>The Council have taken over the running of Caithness Heat and Power to secure the provision of a sustainable service to customers of the company. They are currently carrying out investigations to establish what caused the failure of the project.</p> <p>As well as the financial risks arising from this action there are a number of other potential governance, political and reputational risks.</p> <p>There is also a risk that similar weaknesses could exist in other funding arrangements between the council and other arms length organisations.</p>	<p>Internal Audit is due to report the results of their investigations as a priority.</p> <p>Following consideration of a detailed options appraisal the council is putting in place new sustainable service delivery arrangements based on the preferred option.</p>	<p>Awaiting IA report and the council's response to it before deciding on the action to be taken as part of the audit.</p>
2.	<p>Personal development plans have not yet been introduced for all members.</p> <p>There is a risk that members do not receive appropriate training and development or that the training provided is inappropriate to meet members' needs.</p>	<p>Role descriptions for elected members have recently been approved. PDPs will flow from these descriptors and training needs will be further developed through these.</p>	<p>Continue to monitor and review the council's performance in meeting the training needs of members.</p>
3.	<p>Internal audit coverage may not be sufficient to provide assurance to management on the adequacy of internal control systems.</p> <p>There is a risk that governance will be undermined by weaknesses in internal control systems.</p>	<p>A new structure for IA has been approved by the Resources Committee and recruitment to the vacant posts will commence in the near future.</p> <p>IA planning will allow additional time for unplanned investigations to reduce the likelihood of major slippages in future plans.</p>	<p>Continue to liaise with IA to ensure that audits with the highest risk and those on which we intend to place reliance are completed in accordance with the Internal Audit Plan.</p>

No	Risk	Management assurances	Planned audit action
4.	<p>Significant projects such as Pathfinder North need to be carefully monitored to ensure that the benefits are delivered within the required timescale and resource. Similarly shared service initiatives should be progressed to identify efficiencies and economies in delivery of services to the public.</p> <p><i>There is a risk that the benefits of working together with other bodies will not be fully realised.</i></p>	<p>The Pathfinder North project is carefully monitored and reported to the Pathfinder North Board and to the Resources Committee. Delivery on the project has improved since the takeover of the contract by Cable and Wireless.</p> <p>Shared service initiatives are being actively pursued with other councils and public sector bodies.</p>	<p>Monitor progress reports on the project delivery against timetable for Pathfinder North.</p> <p>Review progress in shared service initiatives.</p>

Partnership working and community leadership

Councils work with a range of other agencies and groups, including the community themselves. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues such as inequality.

No	Risk	Management assurances	Planned audit action
5.	<p>Work is ongoing to further develop the partnership governance structure to ensure partners agree on their respective roles and are each accountable for the delivery of the SOA.</p> <p><i>There is a risk that community planning will not be fully effective until governance issues and roles are clarified. This may impact on SOA outcomes.</i></p>	<p>Work is progressing well in this area. All main partners are committed to the achievement of the SOA.</p>	<p>Review progress in developing the governance and accountability framework for the CPP.</p>

Performance management and improvement

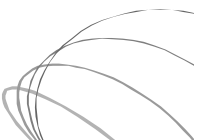
Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

No	Risk	Management assurances	Planned audit action
6.	Significant progress has been made in developing the performance management framework and systems within Highland. The framework needs to be further enhanced to ensure effective reporting of SOA outcomes. <i>There is a risk that key performance information may not be fully captured or reported.</i>	The performance framework is continually being developed, particularly in relation the SOA.	A more detailed review of performance management arrangements is planned to allow a more comprehensive assessment to be undertaken.
7.	Services prepare, monitor and report performance on a quarterly basis. <i>There is a risk that performance management between services will not contain a consistent range of information.</i>	Quarterly performance reports now cover a consistent range of information. There is a commitment to implement a new risk and performance management system to ensure consistent information.	Monitor the progress arising from the implementation of the new system.

Risk management

Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.

We have reviewed this area as part of our Strategic Audit Risk Analysis, but have not identified any strategic risks for inclusion here.



Use of resources - financial management

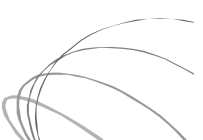
Good financial management is about efficiency, effectiveness, best value and tight financial control. Councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly.

No	Risk	Management assurances	Planned audit action
8.	<p>Constraints arising from the concordat with the Scottish Government, such as the freeze on council tax, and other pressures arising from the current economic climate put a strain on the council's budget</p> <p><i>There is a risk that this may impact on the council's ability to meet its objectives including the required outcomes in the SOA.</i></p>	<p>The Council, Budget Information Group and Strategic Committees perform a key role in reviewing expenditure and identifying and monitoring efficiency savings to ensure that resources are targeted to meet corporate priorities.</p>	<p>Assess the effectiveness of the Council in delivering key priorities within a tight financial budget.</p>

Use of resources – people management

The successful achievement of council objectives and the delivery of high quality services, whether directly by council staff or by others who are monitored by council staff, depends on the capacity, capability, competency and motivation of the workforce

No	Risk	Management assurances	Planned audit action
9.	<p>The appeals process arising from job evaluation and the ongoing implementation of single status will have to be carefully managed to ensure minimum disruption to staff and services.</p> <p><i>There is a risk that a negative impact on staff morale could affect service delivery.</i></p>	<p>Appeals will be accepted until 8 May 2009. The magnitude and impact of the appeals will be fully considered after that date.</p> <p>There is a programme in place to look at revised structures and job re-designs.</p> <p>A strategic approach is being taken to minimise risk and improve staff morale.</p>	<p>To maintain a watching brief on the process and comment on it in the Report to Members.</p>

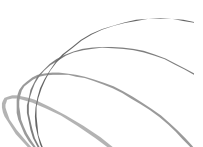


No	Risk	Management assurances	Planned audit action
10.	Harmonisation of terms and conditions is still work in progress. <i>There is a risk that harmonisation could impact on staff morale which could have an adverse effect on service delivery.</i>	A strategic approach is being taken to minimise risk and improve staff morale.	To maintain a watching brief on the process.
11.	The Personnel module is not yet fully operational within the council. <i>There is a risk that the council cannot access or easily analyse staffing information – this could impact on future decisions relating to the workforce.</i>	The agreed actions from the recent Audit Scotland report have either been actioned or are being implemented. The project is progressing.	Follow-up progress on the report recommendations and assess the overall position with the project. To be reported in the Report to Members.

Use of resources – asset management

Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital savings, and improve value for money in service delivery.

No	Risk	Management assurances	Planned audit action
12.	Full implementation of the council's asset management plan is developing. <i>There is a risk that progress is not maintained.</i>	Full implementation is a long term goal which will involve major rationalisation projects. All the strategies, plans, systems and staff will be in place in the next two years.	Monitor progress in developing the asset management planning.
13.	Only 20% of the council's housing properties meet the requirements of the Scottish Housing Quality Standard. <i>Risk of non-compliance with the Scottish Housing Quality Standard.</i>	The Council have plans in place to ensure that council housing properties meet the standards by 2015.	Continue to monitor the position with particular focus on the affordability in relation to the financial position of the Council in the future.



Use of resources – procurement

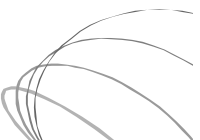
In March 2006, the McClelland Report was published and it concluded that in most areas examined the main public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated that these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.

No	Risk	Management assurances	Planned audit action
14.	The council has a procurement strategy in place and aims to comply where appropriate, with the recommendations of the McClelland report by 2011. <i>There is a risk of delay in implementation of the strategy which may result in the benefits identified by McClelland not being fully realised.</i>	There is a commitment to appropriate compliance with the recommendations, applicable to local authorities, of the McClelland report by 2011.	Monitor progress in developing procurement within the council.

Use of resources - information management

Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency.

No	Risk	Management assurances	Planned audit action
15.	The responsibility for compliance with legislation relating to the handling of data is often dealt with at local or service level. <i>Without a corporate approach there is a risk of non-compliance with legislation.</i>	Information Management Project is now established as part of Corporate Improvement Programme.	Monitor the progress arising from the project.
16.	The project for ICT procurement is fundamental to the council's operation and needs to be effectively managed. <i>There is a risk that the project could be delayed and that it may not achieve value for money.</i>	The project remains on target to put the new arrangements in place in December 2009. Exposing the ICT function to market testing and the development of the Public Sector Comparator will ensure value for money from the project.	Ongoing work on this area which will be reported to the council and included in the Report to Members.
17.	The council has recognised the need for improvements in their arrangements for business continuity and ICT failures. <i>There is a risk of inadequate arrangements for business continuity which may impact on the Council's ability to deliver front-line services.</i>	Improved ICT business continuity and disaster recovery are within the scope of the new ICT contract.	Review the arrangements when they are finalised.



Service priorities and risks

The Scottish Government emphasis on streamlined, better co-ordinated scrutiny means that it is important that audit and inspection agencies understand each others' businesses, be aware of the risks in each others' sectors, and share intelligence to avoid overlap and duplication of scrutiny activity.

No	Risk	Management assurances	Planned audit action
18.	The council recognise the issues arising from the policy for zero waste and are currently looking at alternative methods for meeting the targets. <i>There is a risk that significant financial penalties will be incurred by the council under the Landfill Allowance Scheme.</i>	The risks arising are detailed in the Council's risk register. A joint Waste Management Strategy with Moray Council, based on local solutions, is being developed to assist in achieving the Scottish Government's targets for zero waste.	We will continue to monitor performance in waste management.

The Priorities and Risk Framework is a three-year strategic document. As part of this year's Strategic Audit Risk Analysis we did not carry out a detailed review of this area, and have therefore identified only limited strategic risks/ priorities. We intend to review this area further during the lifetime of the PRF.

