

THE HIGHLAND COUNCIL

AUDIT AND SCRUTINY COMMITTEE – 17 APRIL 2008

Agenda Item	

External Audit Reviews

Report by Depute Chief Executive and Director of Finance

SUMMARY

The undernoted reports have been provided by the Council's External Auditors, (Audit Scotland).

REPORT DETAILS

Ref No.	Report Subject	Report Date
191	Priorities and Risk Framework (Auditors' return) focussing on key issues of interest to the Accounts Commission	20/02/08
192	Annual Audit Plan 2007/8 , based upon the identification and assessment of the key challenges and risks faced by the Council in achieving its business objectives	25/02/08
193	Strategic Audit Risk Analysis , which sets out the findings from a review of the strategic risks facing the Council and the action underway or planned by the Council in response to those risks.	28/03/08

RECOMMENDATION

Members are invited to consider the above reports

Signature:

Designation: Depute Chief Executive and Director of Finance

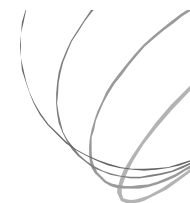
Date: 7th April 2008

Priorities & Risks Framework 2007/08

Auditors' return

Council: Highland Council

Auditor contact: Robert Clark/Kay Jenks



Introduction and purpose of this document

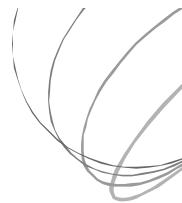
1. The primary purpose of the PRF is to assist audit planning. However, local discussions on risks provide a useful source of early intelligence for the Accounts Commission and material which helps inform local authority overview reporting.
2. In reporting on the outcome of PRF discussions we focus on key issues of interest to the Commission as reflected, for example, in its findings on the overview report. The purpose of this return is to collect information on these key issues. The information should be available from auditors' records of PRF discussions with councils.
3. We include commentary from the PRF on each area of focus and the boxed text identifies the material we require. Please provide one return per council to Gillian Battison (gbattison@audit-scotland.gov.uk) by 29 February 2008.

Key areas of focus for returns

Political governance

4. Elected members may not have access to appropriate training and development tailored to their needs and the competencies they require to be effective in their role. New members in particular may be unable to access high quality induction support that enables them to be effective from the outset. An induction programme should be in place for newly elected members as well as a training needs analysis programme linked into individual development plans for all members. (PRF para 23).

- The Council had a comprehensive induction training programme for continuing and new Members.
- Training on specific topics and skills was also delivered e.g. planning, IT, Chairing Skills, etc. while some training is currently being scheduled on areas such as Community Planning and Engagement and Equalities and Diversity.
- Experienced Members are taking the majority of the 'lead' roles and acting in a 'cascade' type training role for new Members.
- Role descriptions for Members have not been issued as the Council have not yet decided whether they are appropriate.
- Training is evaluated at the end of each session. A Member Survey was also undertaken to establish their views on training to date and training requirements for the future.



- The Council has responded to the CPD framework consultation and is awaiting an agreed competency framework to use as a basis for assessing the longer term impact of training and development.
- The training program is to be refreshed when the CIPFA 'Developing Good Governance in Local Government' is finalised later this year

5. The transition between outgoing and incoming councils may have caused disruption to council business that will impact on the overall performance of its services and scrutiny arrangements. Arrangements should have been put in place to manage the transition between administrations and to ensure governance and scrutiny arrangements have been retained during this period. (PRF para 30).

- The transition between administrations was managed through a comprehensive induction process and training prior to the first Service Committee meetings taking place.
- The new administration comprising a coalition of Independent and SNP members agreed its Programme for Administration (PfA) on 21 June 2007. This strategic document had ten key themes which formed the basis for the corporate plan 2008-2011 agreed by the Council on 25 October 2007. The key themes in the corporate plan were cascaded down into service plans.
- The restructure of the former Audit Committee has resulted in a larger membership base and an extended remit to promote greater scrutiny. Members of the Audit & Scrutiny Committee received two days training on their role. This has formalised scrutiny arrangements within the committee structure.
- All Members received a one day induction in their Operational Area and a briefing from Officers on functions and expectations of Ward Forums. Members are working with Ward Managers to develop new ways of using the Forums and developing working practice to suit local requirements and constraints. As such there is variation in how the individual ward areas are operating.

Community planning & partnership working

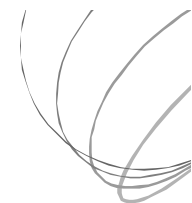
6. Partnerships in which the council is involved may not deliver the intended improvements in services or community wellbeing. Robust performance reporting arrangements based on outcomes should be in place to demonstrate any improvement or deterioration in service provision. (PRF para 44).
7. The results of the local elections may have impacted on the progress made by the Community Planning Partnership with the appointment of newly elected members. Arrangements should have been put in place to ensure progress was not adversely affected by elections. (PRF para 46).



- The Council is developing a new community plan based on the Single Outcome Agreement. The Agreement reflects the Government's 15 national outcomes and requires the co-operation of all partners to ensure national outcomes are delivered.
- The Council proposes to complete a single outcome agreement with NHS Highland, Highlands and Islands Enterprise and Northern Constabulary by March 2008.
- The single outcome agreement will have a performance framework to demonstrate improvements in services.
- The Scottish Government has asked councils to conclude full partnership agreements with community partners by March 2009. The Council proposes to have a full agreement with all partners by October 2008. A report will go to the Council on 6 March on its approach to developing its partnership agreement.
- The Council is looking at how it will work with the voluntary sector including developing a compact, commissioning services and grant aiding the sector. To assist this process a conference is arranged for 7 March 2008 between the interested voluntary and public sector bodies.
- At a local level the Council is considering proposals to extend ward forums to cover all public services.

8. As part of its drive for efficiency, the Scottish Government encourages shared services as a way of releasing efficiency savings and driving up service quality and consistency. (PRF para 98).

- The Council applied to join the National Shared Initiatives project. The project will identify where efficiencies (internal or with partners) can be made, drawing on the methods used in the Scottish pilots and elsewhere in the UK. The Council's Business Improvement Unit will use the diagnostic management tool developed to assess the resources used in around 30 common processes such as front line operations and strategic and support services.
- Councils in the North of Scotland (Aberdeen City, Aberdeenshire, Argyll and Bute, Moray, Highland, Orkney and Western Isles) have agreed to participate in a shared services initiative for revenues and benefits administration, billing and collection. This will include the administration, billing and collection of council tax and non domestic rates and administration of benefit including housing benefit.
- Highland Council is acting as the lead on the Pathfinder North Project which is a £70m project to extend broadband facilities throughout all council areas in the North of Scotland and the Islands.



Performance management

9. An effective corporate performance management system is essential to enable elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils also need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and of high quality. (PRF para 49).

- The Council is developing outcome measures (212) related to its Programme for Administration (PfA). A matrix of measures will include the PfA reference; responsible officer; baseline position in 2006/07; target for the end of the 2010/11 financial year and target profile over the intervening period; linkages to service plans, risk registers and the single outcome agreement; and actions to achieve the targets and/or measures. Some of the measures will use SPIs.
- Quarterly performance reviews by the Chief Executive and Director of Finance with service heads will continue to review progress against agreed outcomes.
- An annual public survey is carried out and the results inform the performance management process. Similarly the results from the bi-annual staff survey assist the Council in assessing the effectiveness of performance and other initiatives on staff.
- The Council is exploring the possibility of using a new model for local authority performance management based on EFQM. The model is promoted by the Local Authority Improvement Service.

10. 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. To allow the public to hold councils to account, this reporting requires to be accessible, user friendly and should be accurate and balanced. (PRF para 52).

- The Council will report outcomes related to the PfA at a number of levels including corporate (to the Council), service (to the appropriate committee), ward and, where linked to the single outcome agreement, to the partnership. The public will have access to all reports.
- The Council is continuing its pan-Highland reporting through a number of vehicles including newspaper supplements, council tax leaflets and through its' website.
- It is also continuing with service specific reporting directed at specific service users for example in terms of schools performance and performance in council care establishments.



- Performance and financial reporting is now carried out at ward level and the March Council meeting is considering further development in relation to ward structures.

Financial planning

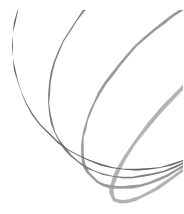
11. The Scottish Government's commitment to deliver a freeze in council tax at 2007/08 levels as well as the proposal to reduce or remove the rates burden for Scotland's small businesses clearly reduces the ability of local authorities to raise additional revenue or finance the delivery of additional services. Although the Scottish Government has planned in its budget proposals to compensate councils for the gap created by any council tax freeze this may not be at the levels required by councils to deliver all their priorities. Council tax increases are still at the discretion of local authorities. (PRF para 67).

- Highland Council agreed on 14 February 2008 to maintain 2007/08 council tax levels for 2008/09.
- From March 2008 the Council are planning to implement a 3 year budget cycle.
- The Council plans to undertake a comprehensive review of its spending priorities by 2009 including a review of the Council's budgeting arrangements and processes.

12. To achieve the priorities for their communities, councils need a flexible budget process, aligned to the planning cycle, to enable them to direct resources to where they are best needed. The Best value audits show that few councils use the priorities identified in their corporate plan as a basis for setting budgets. (PRF para 72)

- The new administration comprising a coalition of Independent and SNP members agreed its Programme for Administration (PfA) on 21 June 2007. The proposals in the PfA were incorporated in the corporate plan submitted to and agreed by the Council on 25 October 2007. These priorities were subsequently incorporated in service plans.
- The Council's 2008/09 budget, agreed on 14 February, reflects the priorities in the programme for administration.

13. As financial pressures crystallise e.g. increasing demand from vulnerable clients, budgets may not be reviewed to reflect the changes or may be subject to top-slicing without a review of overall priorities, resulting in potential over-spends or an ineffective use of resources. The council should 'horizon scan' and actively monitor and assess the ongoing impact of significant financial pressures, and the



extent to which the financial plan covers the medium to long-term taking into account existing commitments and projections. (PRF para 76).

- The Council is maintaining its policy of retaining a level of non-earmarked General Fund balances equivalent to 3% of the net budget. This is equivalent to £17m based on the proposed budget for 2008/09. It also has reasonable levels of earmarked balances for specified purposes e.g. single status.

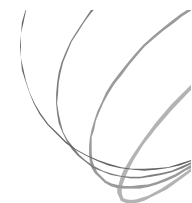
14. Councils may not be able to effectively identify sufficient efficiency savings to enable them to deliver the proposed level of services. The council should monitor and evidence efficiency savings against efficiency targets and deliver the required level of efficiencies to meet their policy objectives. (PRF para 79).

- The Council set a target of reducing management costs by 20% and staffing levels by 500 by 2009 in order to meet budget pressures.
- Changes were made in managerial and organisational structures and the merging of service departments to rationalise staff resources.
- Annual efficiency statements were produced in 2006/07 and 2007/08. Efficiencies have been identified through a variety of sources including the use of the BIT (Business Improvement Team), Asset Management initiatives and the Shared Services Diagnostic Project.

Workforce management

15. The implementation of the single status agreement will continue to affect employer/employee relations and, in turn, may affect service delivery and the achievement of corporate objectives and performance improvements. The same is true of equal pay claims. (PRF para 100).

- The Council is in the process of implementing the single status agreement and it intends to have it in place by April 2008. It has approved a new pay and grading structure and empowered the Chief Executive and Director of Finance authority to implement any required amendments to the proposed pay structure and the conditions of service package. It has also established a Modernising Employment Sub-Committee to take single status forward.
- The Council currently has 956 equal pay/Value Employment Tribunal claims.



16. A workforce strategy will identify risks in relation to workforce matters, covering issues such as health and safety, equalities, business continuity and succession planning. A comprehensive workforce strategy may not be in place. The council should ensure a strategy is in place to address health and safety, equalities, business continuity and succession planning issues. (PRF para 103).

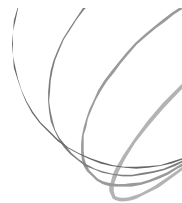
- The Council has approved a corporate strategy on workforce planning.
- The Council has recruitment policies in place.
- The Council has a performance development system, formalised training packages and regular appraisals for staff.

Procuring and managing assets

17. The McClelland report highlighted that there is considerable scope for improvement across the Scottish public sector in terms of procurement practices and organisation and the skills and resources devoted to the function. Procurement is a strategic issue which has long-term consequences for the financial position of councils and the overall management of assets. (PRF para 116).

- The Council agreed on 21 March 2007 to expand its Corporate Procurement Unit (CPU) with a remit to be responsible for all goods and service procurement with the exception of care commissioning and certain major projects, e.g. ICE and IS Contracts. The Unit will also implement the use of improved procurement tools including e-procurement, e-tendering, reverse auctions, and dynamic purchasing systems.
- Highland Council agreed on 28 November 2007 to participate in Scotland Excel. The predicted savings from this initiative are at least £1.5m per annum.

18. Asset management involves full life cycle management of assets in order to maximise their advantage. It covers acquisition and disposal, replacement and improvements and the maintenance of capital assets. Councils are required to take a strategic approach to asset management, viewing assets as a corporate resource to support new ways of working, including partnership working. Best Value also requires councils to find a balance between quality and cost in decisions relating to the procurement and use of assets, and requires a sustainable long-term approach to asset management. (PRF para 115).



- In accordance with the Corporate Plan the Council is in the process of developing a corporate approach to asset management. The Resources Committee on 28 November 2007 agreed a timetable for implementing asset management plans including a property asset management plan and an infrastructure asset management plan by March 2009.
- The Council agreed to include in the 2008/09 budget, provision to establish an Asset Management Team to take forward asset management planning.
- In our Report to Members on the 2006/07 Audit we stated the council had recognised a need to review the content and valuations held on the common good asset register. The Council agreed to complete a review to establish accurate information on common good assets by June 2008.
- The Council has a capital plan going forward.
- The Council is in its fourth year of a five year condition survey.
- Progress in complying with the Disability Discrimination Act in improving accessibility of council buildings to disabled persons.
- The Council is required to fund the investment to bring its housing stock up to the standard required by the Scottish Housing Quality Standard by 2015.

Highland Council

Annual Audit Plan 2007/08

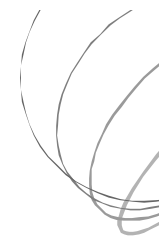
AUDIT SCOTLAND

25 February 2008



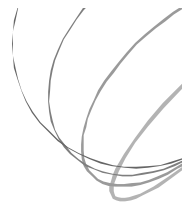
Highland Council

Annual Audit Plan 2007/08



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Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing Highland Council, our planned work in 2007/08 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they present fairly the financial position of Highland Council as at 31 March 2008
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2007 SORP
- reporting the findings of our audit risk assessment process in an Strategic Audit Risk Analysis, highlighting the key risks being faced by the Council, the action under way or planned in response to these and the work we plan to undertake in relation to these. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risk which are unique to the local situation
- a review and assessment of Highland Council's governance and performance arrangements in a number of key areas including: financial management, accounts presentation and disclosure and trading operations.
- providing an opinion on a number of grant claims and returns, including Whole of Government Accounts.

Introduction

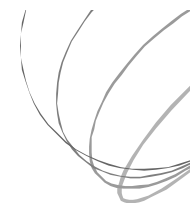
1. Our audit is focused on the identification and assessment of the key challenges and risks faced by Highland Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the Council's financial statements. This report summarises the specific governance and other risks that may affect the financial statements of Highland Council and sets out the audit work that we propose to undertake in 2007/08 to address these. Our plan reflects:
 - the risks and priorities facing Highland Council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.



2. In addition to this annual audit plan we will prepare a strategic audit risk analysis which will focus on the key performance risks being faced by the Council, along with other risks highlighted through our work. The analysis will identify the action in place; or proposed in response to these risks, and our planned work in these areas. This risk assessment work is informed by the Priorities and Risk Framework published by Audit Scotland, along with work undertaken to identify issues and risks which are unique to the local situation.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that Highland Council:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which present fairly the financial position at 31 March 2008 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2007 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.

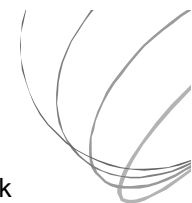


Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of Highland Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Highland Council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how Highland Council will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.

7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2007/08 includes:
 - comprehensive closedown procedures for the financial statements with all relevant staff made aware of the timetable for completion
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of unaudited accounts to agreed timescales with a full package of comprehensive working papers
 - completion of the internal audit programme for 2007/08.

8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the Council's own team. Based on our review of internal audit we propose to place formal reliance on the areas of work set out in Appendix D.



9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, opinion and performance.
10. At the completion of the audit we will provide the Chief Executive with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

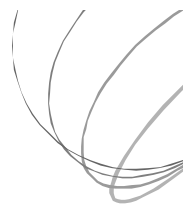
11. It is the responsibility of Highland Council and the Director of Finance as Accountable Officer, to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which present fairly the financial position of Highland Council as at 31 March 2008 and its expenditure and income for the year then ended
 - preparing an explanatory foreword.

Format of the Accounts

12. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. The Council prepares a consolidation pack annually for the Scottish Government under the requirements of the Government Resources and Accounts Act 2000. The Act requires the Council to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

14. This annual audit plan focuses on governance and other risks specific to the financial statements of Highland Council. Our strategic audit risk analysis will provide a broader analysis of wider risks and issues your Council faces, setting out our planned work in relation to performance and other governance issues in more detail.
15. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the main financial statements risk areas for your organisation.

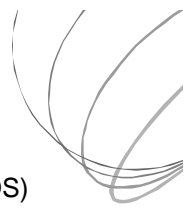


Financial management

16. The Council has a number of financial pressures to manage during the coming financial year. The single status and equal pay agenda is still ongoing although the job evaluation exercise is almost complete and it is anticipated the new pay structures will be effective from 1 April 2008. However, until single status is implemented the ongoing costs can only be estimated and therefore remains a financial risk to the Council.
17. The Council set tight financial budgets for 2007/08, with a general allowance for inflation of 2%. The budgets also assumed efficiency savings of £6.1m and a combination of efficiency savings and changes in service provision of £2.6m. In common with other councils, the Council needs to demonstrate that service outcomes have been maintained or improved and provide evidence to support the link between resources and performance measurement.
18. A key element in the efficient use of resources is effective asset management planning. Asset management plans include long-term capital planning and budgeting; strategies to reduce maintenance costs and proactively dispose of surplus assets; and robust asset management monitoring information. The Council has agreed a timetable for developing asset management planning and recently made provision in the 2008/09 budget to progress this initiative.
19. The Council has a number of plans in place relating to the schools estate, the housing stock, office rationalisation and plant and vehicles. There was an acknowledgement of slippage in the general services capital programme in 2006/07 and the Council accepted it needs to actively manage its capital programme to ensure corporate priorities are met.
20. Our 2006/07 audit work identified that reconciliations between the council tax and non domestic rates systems and the records held by the Highland and Western Isles Valuation Joint Board were only completed to July 2006. Regular reconciliations between the two organisations' systems are a fundamental component of good internal control.

Accounts presentation and disclosure

21. A number of changes are required by the 2007 SORP. These changes include:
 - accounting for financial instruments based on FRS 25, FRS 26 and FRS 29. This affects soft loans made to voluntary organisations and subsidiaries after April 2007. It also affects premiums/ discounts arising from debt restructuring, bad debt provisions and stepped interest loans. The effect of the changes will mean that prior period adjustments will be required and the format of the balance sheet and notes will change
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account. The Council will need to introduce new processes and working papers to support the balance on the revaluation reserve



- an additional note explaining the nature of any Business Improvement District Schemes (BIDS)
 - provision for penalties under the Landfill Allowance Schemes.
22. The Council need to ensure that the financial statements work programme and templates are updated to reflect these changes.
23. The Council has a number of common good funds including the Inverness Common Good which has a portfolio of assets and generates income for use in the former Burgh. LASAAC recently issued guidance on the accounting and usage of these funds. The Council should demonstrate it is effectively managing these funds by comparing current practices against the guidance.

Trading operations

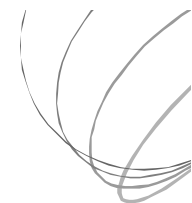
24. The Council acknowledges that many of the significant trading operations' (STOs) activities are still managed in accordance with service level agreements which were subject to competitive tender at least ten years ago. Until these activities are fully reviewed the Council cannot demonstrate that the trading operations are delivering best value. In response to our previous concerns in this area the Council agreed to compile a timetable to complete options appraisals on STO services to demonstrate it is achieving best value.

Summary assurance plan

25. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the Council. The sources of assurance we received for each of these risks and any planned audit work is also detailed in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

26. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
27. International Standard on Auditing 320 states that, *"information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."*



28. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
29. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting Arrangements

30. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the Council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit and scrutiny committee dates and audit resources.]
31. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to [the Chief Executive, Director of Finance and relevant senior manager to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.]
32. A copy of all final agreed reports will be sent to [the Chief Executive, Director of Finance, relevant senior manager, Internal Audit and Audit Scotland's Public Reporting Group.]
33. We will provide an independent auditor's report to [Highland Council] and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about [Highland Council] management of key risks.
34. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).



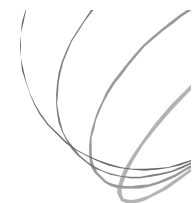
35. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
Strategic audit risk analysis	31 March 2008
Matters arising from the audit	30 June 2008
Performance	
PRF local position statement	29 February 2008
Statutory PIs	31 August 2008
Financial statements	
Report to Audit and Scrutiny Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	25 September 2008 (tbc)
Independent auditor's report on the financial statements	30 September 2008
Financial statements management letter	30 September 2008
Annual report to the Members and the Controller of Audit	31 October 2008
Audit opinion on Whole of Government Accounts	31 October 2008
Grants	
Audit opinions on DWP and Scottish Government grant claims	As required

Quality control

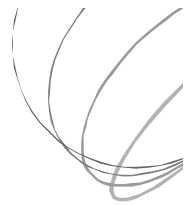
36. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Highland Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is, Robert Clark, who is responsible for ensuring that our work is carried out on time and to a high quality standard.

37. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.



Fees and resources

38. Our agreed fee for the 2007/08 audit of Highland Council is £487,000 comprising a local audit fee of £311,000 and a fixed charge of £176,800. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at the Audit and Scrutiny Committee and key board meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
39. In determining the agreed fee we have taken account of the risk exposure of Highland Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and comprehensive working papers by 30 June 2008. If the draft accounts and papers are late, or agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
40. Additional fees will be required in relation to any work or other significant exercises not within our planned audit activity or for work on any grant claims or returns not included in the planned outputs.
41. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Highland Council the Assistant Director is Fiona Mitchell-Knight.
42. The local audit team will be led by Robert Clark who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.



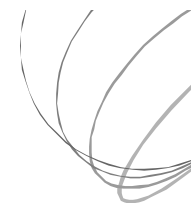
Independence and objectivity

43. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.

44. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.



26 February 2008



Appendix A

Summary assurance plan

In this section we identify a range of operational risks facing Highland Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Highland 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.

Risk	Source of assurance	Planned audit action
Financial Management		
<p>Due to the pressure of equal pay and single status settlements, and service budget pressures, there is a risk that the Council may not achieve its budget projections.</p>	<ul style="list-style-type: none"> ▪ Well established financial monitoring procedures ▪ ongoing review of implications of equal pay and single status settlements ▪ budget provision made for settlement. 	<ul style="list-style-type: none"> ▪ Review the position reached between the Council and staff representatives ▪ examine any provision at the year end for reasonableness ▪ report results in the annual report to members.
<p>There is a risk that if planned efficiencies are not realised, this will threaten current spending plans and restrict the scope for further investment to support corporate priorities and objectives.</p>	<ul style="list-style-type: none"> ▪ Efficiency strategy to deliver the required level of efficiencies ▪ efficiency savings were specifically identified in the 2007/08 revenue budget. 	<ul style="list-style-type: none"> ▪ Review procedures to demonstrate efficiency gains and maintain or improve service outcomes ▪ incorporate reference in the annual report.
<p>The Council needs to demonstrate the key elements in the efficient use of resources by having effective asset management planning. Plans will include long-term capital planning and budgeting; strategies to reduce maintenance costs and proactively dispose of surplus assets; and robust asset management monitoring information.</p>	<ul style="list-style-type: none"> ▪ The Council recently agreed a timetable for developing asset management planning ▪ the Council has a number of plans in place relating to the schools estate, the housing stock, office rationalisation and plant and vehicles ▪ the Council has committed resources in its 2008/09 budget to develop its asset management plans. 	<ul style="list-style-type: none"> ▪ Review the timetable for developing asset management planning and monitor progress in implementing it ▪ look at existing plans and linkages to corporate and service plans ▪ incorporate references in the annual report.
<p>There was slippage in the general services capital programme in 2006/07 and the Council accepted it needs to actively manage its capital programme to ensure corporate priorities are met.</p>	<ul style="list-style-type: none"> ▪ The Council is actively managing its capital programme in 2007/08 and reports are regularly submitted to committee on progress against plans ▪ going forward, officers will continue to monitor closely the achievement of the capital programme to ensure corporate priorities are met. 	<ul style="list-style-type: none"> ▪ Review progress reports of expenditure against the capital programme and actions taken to address slippage ▪ incorporate a reference in our annual report.



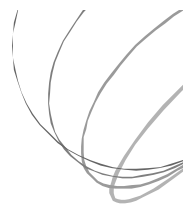
Risk	Source of assurance	Planned audit action
<p>Regular reconciliations between the council tax and non domestic rates systems and the records held by the Highland and Western Isles Valuation Joint Board are fundamental components of good internal control.</p>	<ul style="list-style-type: none"> ▪ Director of Finance agreed to ensure reconciliations for the financial year to 31 March 2008 are completed by April 2008 ▪ progress on the preparation of reconciliations is monitored on a regular basis in the Finance Service. 	<ul style="list-style-type: none"> ▪ Review progress on completing reconciliations ▪ incorporate a reference to procurement in our annual report if required.
<h2>Accounts presentation and disclosure</h2>		
<p>Financial closure planning process does not take account of additional requirements of SORP.</p>	<ul style="list-style-type: none"> ▪ Review SORP and update closure programme ▪ develop revised accounts template. 	<ul style="list-style-type: none"> ▪ Early financial statements planning meeting ▪ agree timetable of early work ▪ report in the financial statement management letter.
<p>LASAAC issued guidance on accounting and usage of common good funds. In order to comply with guidance it is important that the Council review usage of funds to ensure compliance with case law and guidance.</p>	<ul style="list-style-type: none"> ▪ The Council is aware of its obligations on the use of common good funds and regular reports are provided to committee on asset management, investment policies and use of the funds ▪ the guidance was only recently issued and the Council will review its use of the common good funds against this guidance. 	<ul style="list-style-type: none"> ▪ Review issues as part of our ongoing audit ▪ incorporate a reference in our annual report if required.
<h2>Trading operations</h2>		
<p>Until the Council completes reviews of its trading operations it cannot demonstrate that the trading operations are delivering best value.</p>	<ul style="list-style-type: none"> ▪ In the Action Plan to the 2005/06 Annual Report the Council agreed to review service level agreements by March 2008 ▪ in the Action Plan to the 2006/07 Annual Report the Council agreed to compile a timetable to complete options appraisals on STO services to demonstrate it is achieving best value ▪ the Council is progressing both actions. 	<ul style="list-style-type: none"> ▪ Monitor and review progress of implementing actions agreed and included in the Annual Reports on the Audit ▪ incorporate reference in the annual report.



Appendix B

Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to May 2008
Provision of closedown procedures to audit	31 March 2008
Meetings with officers to clarify expectations of detailed working papers and financial system reports	20 March 2008
Planned Council approval of unaudited financial statements	26 June 2008
Latest submission of unaudited financial statements with working papers package	30 June 2008
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Director of Finance	4 September 2008 (tbc)
Agreement of unsigned financial statements for the Audit and Scrutiny Committee agenda, and issue of report to the Audit and Scrutiny Committee on the audit of financial statements (ISA 260)	18 September 2008 (tbc)
Audit and Scrutiny Committee date	25 September 2008 (tbc)
Independent Auditors Report signed	30 September 2008
Latest date for submission of management letter on financial statements audit	30 September 2008
Latest date for submission of unaudited whole of government accounts return to external audit	14 September 2008
Latest date for signing of WGA return	31 October 2008
Annual report and certified accounts presented to Council	November 2008 (tbc)



Appendix C

Audit team

A summarised curriculum vitae for each core team member is set out below:

Lynn Bradley BSc CPFA CA
Director of Audit Services

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently a CIPFA council member and the past chair of CIPFA in Scotland.

Fiona Mitchell-Knight BA (Hons) FCA
Assistant Director of Audit Services

Fiona took up post as Assistant Director of Audit in August 2007, following six years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 15 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.

Robert Clark FCCA
Senior Audit Manager

Robert has over 17 years experience of public sector audit with Audit Scotland, covering local government, health and central government. Prior to this, Robert worked in a number of public sector organisations for over 12 years including a senior post in a former district council.

Kay Jenks BA CPFA
Senior Auditor

Kay took up her post in Audit Scotland nearly three years ago. Prior to this Kay worked for the Audit Commission for 15 years in a senior management role with a varied portfolio of audits in local government and health.

Grietje Menger CISA
Senior ICT Auditor

Grietje Menger started working as a Senior ICT Auditor for Audit Scotland in October 2003. Since then, she has worked mainly in the Local and Central Government sectors as an ICT audit specialist. Grietje trained as an auditor and ICT audit specialist with the Dutch Tax Authority and qualified as a Certified Information Systems Auditor in 2003.



Michael Moir FMAAT

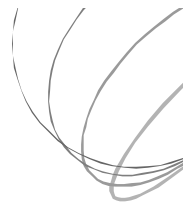
Auditor

Mike joined Audit Scotland in 1988 and has covered the audit of the local government, health and the education sectors. Prior to this, Mike worked in the health service for 7 years.

Christopher Rhodes MA (Hons)

Auditor

Chris is a professional trainee who joined Audit Scotland in 2006. |



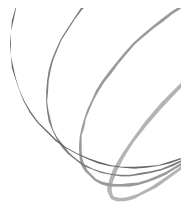
Appendix D

Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service provided by the team operates in accordance with the CIPFA code of practice for internal audit in local government. The areas where we plan to place some reliance on the work of internal audit include:

- main accounting system
- ordering and accounts payable
- rent accounting and arrears management
- council tax
- benefits efficient
- management information (Data Protection/Freedom of Information)
- IT access controls
- grants to voluntary organisations
- Statutory Performance Indicators

Appendix E



Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Scrutiny Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.

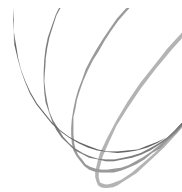
Highland Council

Strategic Audit Risk Analysis 2007/08

28 March 2008

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Key issues and priorities in the local government sector	3
Strategic risk analysis 2007 - 2010	5
Strategic risk plan 2007/08	12
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Key messages

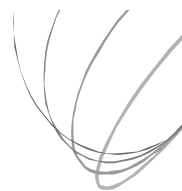
This report sets out the findings from our review of the strategic risks facing Highland Council. We considered the key risks and the action underway or planned by the council in response to these risks. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identified areas for ongoing review in future years. This complements the work carried out by us in other areas, the approach to which was reported recently in our Annual Audit Plan.

We identified and considered the following strategic risk themes for the council, summarising the key risks it faces in working toward achievement of its corporate objectives:

- Supporting political governance
- Sustainability and efficient use of resources
- Working with communities and partners
- Adopting a strategic framework to deliver change
- Using performance management to drive service improvement
- A modern and streamlined workforce

Our risk assessment work has 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.

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 to 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. The assessment included follow-up of the risks reported in our 2006/07 Audit Risk Analysis and Plan, which were then reflected in our 2006/07 annual audit report as appropriate.
3. To provide the context for the council, we briefly outline some of the key challenges currently facing Scottish local government. We then provide a summary of our assessment of the key risks facing Highland Council over the next three years together with the management assurances we have received for each risk area.
4. 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 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.
5. This report sets out our findings from the audit risk analysis carried out. It complements the work carried out by us in other areas such as the audit of the financial statements, the approach to which was reported recently in our Annual Audit Plan.
6. 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.
7. 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.
8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our work is gratefully acknowledged.



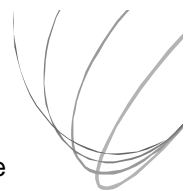
Key issues and priorities in the local government sector

Overview

9. In the last year there have been major changes in the local government environment. There is a new national government and, at a local level, the move to proportional representation has resulted in changes to the political balance. Most councils have seen a significant shift from one party control to coalition or minority administrations. In addition, while the overall number of councillors is unchanged, nearly half are new to local government.
10. The new Scottish Government has set a strategic framework to deliver sustainable economic growth in Scotland, with simpler government and a focus on outcomes and best value for citizens. The Government wants to give councils more flexibility while recognising the significant role of the voluntary sector and the importance of community planning partnerships. There is an expectation of a move towards more effective performance management systems using outcome agreements and a strong expectation that councils will share services. Efficient use of resources continues to feature as an overall requirement.
11. While the Scottish Government has issued its plans for expenditure and outlined its priorities, it is too early to assess the extent to which the new political context will change the big issues facing local government. However, the move towards a new relationship between central and local government is a key element of the Government's stated intention, and the early signs of this are beginning to be evident in the development of a more outcome focused approach.
12. 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.

2007/08 Priorities and Risks Framework

13. The Priorities and Risks Framework (PRF) is a national tool used by auditors to plan the risk-based audits of local authorities in Scotland. It is updated annually and identifies the key national initiatives and priorities facing clients in the coming year as well as the main risks to their achievement. This helps to ensure that audit work is properly focused and takes account of local authority national priorities and risks. It is one element of our approach which is designed to 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 sufficient to identify and assess the risks of material misstatement. The national view presented by the PRF is combined with the auditor's understanding of the key priorities and risks operating at the local level.



14. 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 2007/08 are:

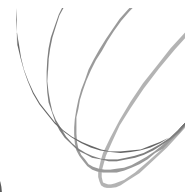
Political governance	Financial planning
Community planning & partnership working	Workforce management
Performance management	Procuring & managing assets

15. The 2007/08 priorities and risk framework is available from Audit Scotland's website (http://www.audit-scotland.gov.uk/docs/local/2007/prf_0708_localgov.pdf)

Study programme consultation

16. In February 2007 we published our programme of performance audits 2007/08. The programme was prepared taking account of views expressed by key stakeholders such as local authorities, the Scottish Parliament, Scottish Executive and the Scottish Consumer Council and has been approved by the Accounts Commission. It includes a number of joint studies with the Auditor General and provides the basis for study work to the end of 2008.
17. The programme (<http://www.audit-scotland.gov.uk/docs/fwd/studyprogramme0708.pdf>) is designed to provide a mix of projects reflecting the range of responsibilities covered by the Accounts Commission and the Auditor General. National studies complement other audit work including Best Value audits, overview reports and annual audits. It is important that the range of audit work generates reports on major themes facing the Scottish public sector. The programme includes studies relating to environmental sustainability, educational performance, health, workforce issues and community safety, all important topical public policy subjects. It also includes studies that provide post legislative evaluation and relate to best value and the efficient government agenda.

Strategic risk analysis 2007 - 2010

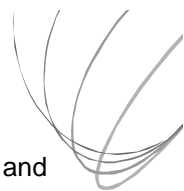


Overview of Highland Council

18. 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 15 inhabited island communities. It has a population of over 210,000. 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 Inverness, 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.
19. 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.
20. The Council developed an improvement plan in response to the issues raised by the audit and we concluded in our 2006/07 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 either implemented or on target.

Supporting political governance

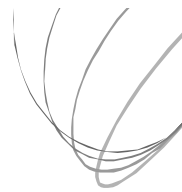
21. Elected members play a critical role in representing the views of the electorate and in ensuring that the Council responds to those views. Elected members should have access to appropriate training and development tailored to their needs and the competencies required to be effective in their role. New members in particular need access to high quality induction training that enables them to be effective from the outset.
22. The new administration is a coalition of Independent and SNP Members. Previously the Council was independent and, as such, did not have group leadership. Just over half of the Council Members are new to their role and this was reflected in the level and support available to Members. Officers have also had to adapt to a more political climate and new ways of working.



23. The Council implemented a comprehensive induction programme for continuing and new Members and this and other measures, such as experienced Members taking 'lead roles', has reduced the potential risk that the transition between the outgoing and incoming administrations could disrupt Council business.
24. The Council made changes to its central committee structure and its Area committee structure to coincide with the May 2007 elections. The Council also revised its administrative structure by reducing the eight Areas to three and by creating an administrative structure to meet the needs of its twenty-two new multi-member wards, including appointment of ward managers who report to a corporate manager appointed for each of the new operational management areas.
25. The functions and role of Ward Forums is continuing to evolve with Members working with Ward Managers to develop new ways of using the Forums and developing working practices to suit local requirements and constraints. Performance and financial reporting is being developed at ward level and will be fully implemented by October 2008.
26. The current political arrangements have been in place almost a year and the Council has concluded these arrangements require review to ensure they are appropriate to its needs. The Council recently formed a Working Group to review the current political arrangements and the remit includes an examination of the strategic committee structure and the operation of the Wards and Ward Forums. It is anticipated that the Group will report fully costed options for consideration to the Council in late summer.
27. Effective scrutiny is central to good governance, with a significant role for Members to scrutinise performance, hold management to account for service delivery and support the reform and modernisation agenda. The Audit and Standards Committee was replaced by an Audit and Scrutiny Committee. Its remit includes promoting greater scrutiny by undertaking reviews, with the Council's approval, of the performance of the Council and funded third party organisations, against service delivery and makes recommendations to the Council on proposed actions. It will also scrutinise matters referred to it by the Council. This has extended scrutiny arrangements within the committee structure.

Immediate priorities and risks

- Continuing to develop Members through the Council's comprehensive training programme.
- Completing the review of the current political arrangements including examination of the strategic committee structure and the operation of the Wards and Ward Forums.



Adopting a strategic framework to deliver change

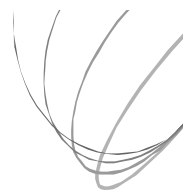
28. A strategic framework is essential to deliver change through corporate strategies and objectives supported by longer term financial and asset management plans. Change agendas need to be driven forward to ensure resources are used efficiently and effectively. Inevitably, any significant change programme carries risks.
29. This was recognised by the new administration which agreed its Programme for Administration (PfA) in June 2007. This strategic document has ten key themes which formed the basis for the agreed corporate plan 2008-2011. The key themes in the corporate plan were cascaded down into service plans and the 2008/09 budget reflects many of the priorities.
30. All councils are required to propose and finalise single outcome agreements with the Scottish Government by the end of June 2008 and all other relevant partners by March 2009. The purpose of the agreements is to move away from micro-managing local government nationally through ring fenced funding to setting out how councils will contribute to achieving 15 national outcomes. This will allow councils more freedom to determine their spending plans including use of previously ring fenced funding. This may also require councils to revisit corporate and service plans to ensure they are aligned with single outcome agreements.
31. The Council has made progress in planning its overall financial position over the medium term but is still working towards longer term integrated capital investment and asset management planning. In the absence of longer term financial planning, there is a risk that spending decisions may not be affordable, sustainable and prudent.
32. The Council requires funding to invest in its housing stock to bring it up to the standard required by the Scottish Housing Quality Standard by 2015.

Immediate priorities and risks

- Finalising a single outcome agreement between the Council and the Scottish Government and thereafter ensuring alignment of corporate and service plans with the agreement.

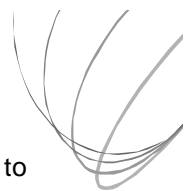
Longer term considerations

- Continuing to develop robust and demonstrable frameworks to confirm that corporate strategies and objectives are supported by medium and long term financial and asset management plans.
- Funding the investment to bring its housing stock up to the standard required by the Scottish Housing Quality Standard by 2015.



Sustainability & efficient use of resources

33. Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Sound financial planning is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.
34. The financial pressures on councils are significant including the Scottish Government's commitment to deliver a freeze in council tax at 2007/08 levels as well as the proposal to reduce or remove the rates burden for Scotland's small businesses. Revenue budgets may also be constrained to meet the demands of single status agreements and the efficiency agenda. Other financial pressures include increasing pension costs, the implications of the national waste strategy, increasing energy costs and the increasing costs of free personal care.
35. The Council has yet to implement the single status agreement, with discussions continuing with trades unions and employees over revisions to the pay structure. Amounts have been included in the budget for the costs of implementation totalling £5.6m, but until local agreements are in place these cannot be fully quantified. The timetable for implementation has slipped with the original plan being to introduce single status in 2007. It is now anticipated that the agreement will be implemented from April 2008. It is anticipated that the estimated potential equal pay compensation payments arising from the delay will be contained within the budget.
36. Significant efficiencies are required to both balance the Council's budget and to meet efficiency targets. The Council has demonstrated a clear commitment to the efficiency agenda and exceeded its savings target in 2006/07. Efficiencies have been identified through a variety of sources including the energy management performance plan, Business Improvement Team and asset management initiatives. The Council has also opted to join the Shared Services Diagnostic Project.
37. In order to claim efficiencies the Council needs to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to provide evidence of the link between resources and performance measurement. Savings are currently reported to members as part of the budget monitoring process, via the Budget Working Group.
38. The McClelland Report highlighted there are major gains to be made from better procurement practices and that efficiencies can be achieved through the use of electronic procurement and public services joining together to maximise purchasing power through collaborative buying.



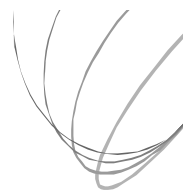
39. In response to the recommendations in the McClelland Report, the Council has recognised a need to develop improved practices to generate savings and/or efficiencies for release to front line services. The remit of the Corporate Procurement Unit is to be expanded to include responsibility for all goods and service procurement with the exception of care commissioning and certain major projects. The Unit will also implement the use of improved procurement tools including e-procurement, e-tendering, reverse auctions and dynamic purchasing systems. The Council has also agreed to participate in Scotland Excel and anticipates savings of at least £1.5m per annum.
40. ICT is central to the effective delivery of front line services and delays in delivering key ICT projects could impact on the effectiveness of front line services. The management of the ICT function is under significant resource pressure due to the procurement for ICT services project and the implementation of the Pathfinder North project for broadband provision across the North of Scotland. To alleviate this pressure the current ICT services contract was extended for a further year.

Immediate priorities and risks

- Ongoing management of budget pressures.
- Finalising the single status agreement and dealing with backdated equal pay claims.
- Progressing the efficient government agenda.
- Progressing the procurement of ICT services.

Using performance management to drive service improvement

41. An effective corporate performance management system is essential to enable elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils also 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. This was recognised in the Programme for Administration (PfA).
42. The Council is developing 212 outcome measures related to its PfA and corporate plan and this recognises the need to improve performance. A matrix of measures will include the PfA reference; responsible officer; baseline position in 2006/07; target for the end of the 2010/11 financial year and target profile over the intervening period; linkages to service plans, risk registers and the single outcome agreement; and actions to achieve the targets and/or measures. Some of the measures will use Statutory Performance Indicators.
43. Outcomes related to the PfA will be reported at a number of levels including corporate (to the Council), service (to the appropriate committee), ward and, where linked to the single outcome agreement, to the community planning partnership. The public will have access to all reports through a number of vehicles including newspaper supplements, council tax leaflets and through the Council's website.



44. Quarterly performance reviews by the Chief Executive and Director of Finance in conjunction with service heads will continue to review progress against agreed outcomes.
45. An annual public survey is carried out and the results inform the performance management process. Similarly the results from the bi-annual staff survey assist the Council in assessing the effectiveness of performance and other initiatives on staff.
46. The Council is exploring the possibility of using a new model for local authority performance management based on the European Foundation for Quality Management. The model is promoted by the Local Authority Improvement Service.
47. Business continuity and ICT failure have been recognised by the Council as an area where arrangements require to be improved. The Council needs to ensure business continuity planning enables it to sustain services during prolonged interruptions to ICT facilities.

Immediate priorities and risks

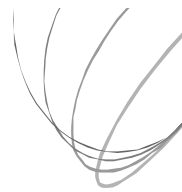
- Improving business continuity arrangements.

Longer term considerations

- Continuing the process of embedding an effective performance management framework within the day to day activities of services.

Working with communities and partners

48. The Council is developing a new community plan based on the Single Outcome Agreement. The Agreement will reflect the Government's 15 national outcomes and requires the co-operation of all partners to ensure national outcomes are delivered. Initially the Council proposes to complete a single outcome agreement with NHS Highland, Highlands and Islands Enterprise and Northern Constabulary by March 2008 and with all partners by October 2008 (the deadline being March 2009). The agreement will have a performance framework to demonstrate improvements in services.
49. The Council is looking at how it will work with the voluntary sector including developing a compact, commissioning services and grant aiding the sector. To assist this process a conference was recently convened involving interested voluntary and public sector bodies.
50. Councils in the North of Scotland (Aberdeen City, Aberdeenshire, Argyll and Bute, Moray, Highland, Orkney and Western Isles) have agreed to participate in a shared services initiative for the administration, billing and collection of council tax and non domestic rates and administration of benefits. Moray Council is leading on this project and Highland Council has provided the project manager.



Immediate priorities and risks

- Completing a single outcome agreement with NHS Highland, Highlands and Islands Enterprise and Northern Constabulary by March 2008 and with all partners by October 2008.
- Developing a compact with the voluntary sector and a longer term approach to commissioning services and grant aid.

A modern and streamlined workforce

51. The successful delivery of Council services, whether directly by Council staff or by others and monitored by Council staff, depends on the capacity, capability and competency of the workforce. Workforce related issues are at the forefront of local government priorities at this time and the Council has committed significant resources, and made progress, in trying to resolve equal pay and single status issues.
52. 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.
53. As part of the implementation of the single status agreement, the Council has taken the opportunity to review, redesign and modernise working practices in some areas, including operational services which have been redesigned around business needs and areas where there is flexibility around working hours. A move towards more generic job descriptions, which would allow for more flexibility around services, is also on the agenda.
54. The implementation of the personnel module of the payroll system, which was significantly delayed due to technical problems, is currently being rolled out and it is anticipated that it will improve the availability of management information on the workforce.

Immediate priorities and risks

- Continue to review, redesign and modernise working practices to meet service needs.
- Completing the roll out of the personnel module of the payroll system, resulting in improved management information.

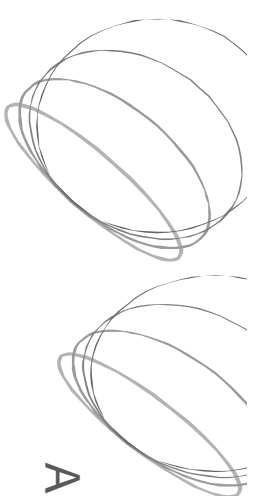
Strategic Risk Plan 2007/08

Strategic risk plan

55. This report summarises the key risks facing the council and sets out the audit work that we propose to undertake in 2007/08 and future years on these risk areas. 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 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.
56. 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 2007/08 sets out more detailed information on our responsibilities, approach, quality control and fees)
 - issues brought forward from last year's audit.
57. Within the strategic risk themes there is a range of more detailed risks and these are included within the council's 2007/08 strategic risk plan, as set out in appendix A. 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.
58. Where risks have a possible impact on the financial statements of the council they may have already been reported in our Annual Audit Plan. They have been included here also so that this risk plan reflects the complete range of risks in the council.
59. It is in the nature of risk that the likelihood of occurrence is 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

60. Our risk assessment work has confirmed that the council has action plans in place to address many of 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 2007/08 – strategic risk plan

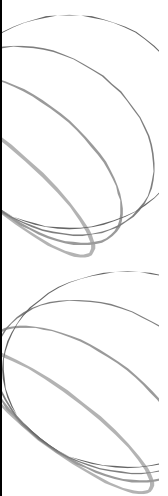
Strategic risk plan - *In this section we identify a wide range of corporate and operational risks facing the council, the related management assurances received and the audit work we propose to undertake in the coming years to secure additional assurance. The management of risk is the responsibility 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.*

Supporting political governance

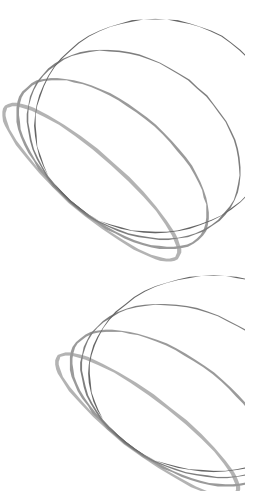
The introduction of proportional representation and multi-member wards presented new challenges for decision making structures and elected members.

No	Risk	Management assurances	Planned audit action
1.	As approximately half the Council's members returned after elections in May 2007 were new there is a need to continue providing appropriate training to ensure they are equipped for their governance and scrutiny roles in a period of change for local government.	<ul style="list-style-type: none">▪ The Council implemented a comprehensive induction training programme for continuing and new Members.▪ A member survey was also undertaken to establish their views on training to date and training requirements for the future.▪ Training on specific topics and skills was also delivered e.g. planning, IT, chairing skills, etc. while some training is currently being scheduled on areas such as community planning and engagement, media awareness and equalities and diversity.▪ Experienced Members are taking the majority of the 'lead' roles and acting in a 'cascade' type training role for new Members.▪ Training is evaluated at the end of each session.	We will keep this matter under review.

No	Risk	Management assurances	Planned audit action
2.	<p>The current political arrangements have been in place for almost a year and the Council has concluded they require review to ensure they are appropriate to its needs.</p>	<ul style="list-style-type: none"> ▪ The Council recently formed a Working Group to review the current political arrangements with the remit which includes examining the strategic committee structure and the operation of the Wards and Ward Forums. ▪ It is anticipated that the Group will report fully costed options for consideration to the Council in late summer. 	<p>We will track progress in this area and report in the annual report to members.</p>



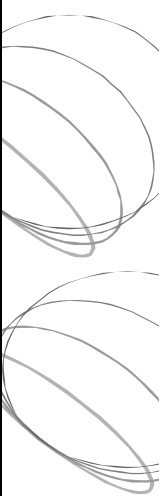
Adopting a strategic framework to deliver change



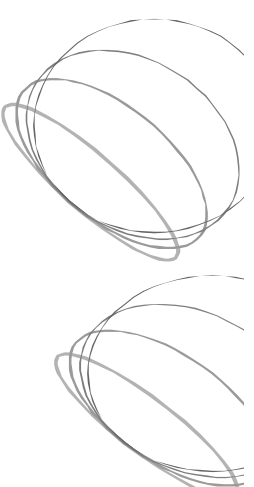
A strategic framework is required to deliver change through corporate strategies and objectives supported by longer term financial and asset management plans. Councils' change agendas, however, need to be driven forward to ensure resources are used efficiently and effectively. Inevitably, any significant change programme carries risks.

No	Risk	Management assurances	Planned audit action
1.	Councils will need to review existing corporate and service plans to ensure they are aligned with single outcome agreements once they are finalised.	<ul style="list-style-type: none"> ▪ Work is ongoing to finalise the single outcome agreement with the Scottish Government by the end of June 2008. ▪ The Council believes its current corporate and service plans will require little modification to meet the probable needs of a single outcome agreement. ▪ A review of current corporate and service plans is underway to determine the extent of revisions required. 	We will track progress in this area and report in the annual report to members.

No	Risk	Management assurances	Planned audit action
2.	<p>The absence of robust and demonstrable frameworks to confirm that corporate strategies and objectives are supported by medium and long term financial and asset management plans may result in an inability to deliver the Programme for Administration.</p>	<ul style="list-style-type: none"> ▪ The Resources Committee in November 2007 agreed a timetable for implementing asset management planning including a property asset management plan and an infrastructure asset management plan by March 2009. ▪ The Council agreed to include in the 2008/09 budget, provision to establish an Asset Management Team to take forward asset management planning. ▪ The Council has a capital plan going forward to the 2010/11 financial year. It is focussed on projects related to service delivery and is intended to make best use of the prudential framework. It includes refurbishing care homes, work on roads and has a set of priorities on what the Council wants to do. ▪ In setting the 2008/09 budget, the Council's agreed its reserves strategy is to continue to maintain a minimum unallocated general fund balance equivalent to 3% of the net budget, equivalent to £17m. Earmarked balances for specified purposes are also being maintained. ▪ The Council is maintaining reserve balances at a level it considers prudent to enable it to respond to unforeseen financial pressures over the medium to long term without a significant impact on council tax levels. 	<p>We will monitor the progress on these areas throughout our audit appointment and incorporate comments in annual reports to members where necessary.</p>
3.	<p>The Council may have insufficient funding to invest in its housing stock to bring it up to the standard required by the Scottish Housing Quality Standard by 2015.</p>	<ul style="list-style-type: none"> ▪ The Council has prepared a strategy to bring its housing stock up to the required standard by 2015. The strategy maps out the work required to meet the quality standard by 2015, the cost of the work and how it will be resourced. 	<p>We will monitor the progress of this project throughout our audit appointment.</p>



Sustainability and efficient use of resources

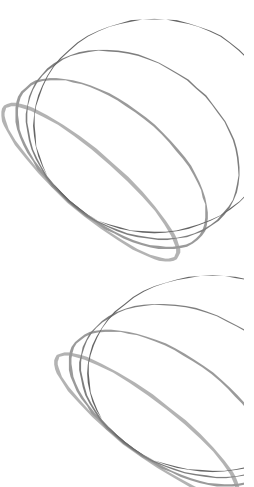


The financial pressures on Councils are significant and efficiencies are required to both balance budgets and to meet targets set out in the Efficient Government Programme.

No	Risk	Management assurances	Planned audit action
1.	<p>The Scottish Government's commitment to deliver a freeze in council tax at 2007/08 levels as well as the proposal to reduce or remove the rates burden for Scotland's small businesses may reduce the ability of local authorities to raise additional revenue or finance the delivery of additional services. Although the Scottish Government has planned in its budget proposals to compensate councils for the gap created by any council tax freeze this may not be at a level required by councils to deliver all their priorities.</p>	<ul style="list-style-type: none"> ▪ Highland Council agreed on 14 February 2008 to maintain 2007/08 council tax levels for 2008/09. ▪ From March 2008 the Council are planning to implement a 3 year budget cycle. ▪ The Council plans to undertake a comprehensive review of its spending priorities by 2009 including a review of the Council's budgeting arrangements and processes. 	<p>We will monitor the progress on these areas throughout our audit appointment and incorporate comments in annual reports to members where necessary.</p>
2.	<p>The implementation of the single status agreement will continue to affect employer/employee relations and, in turn, may affect service delivery and the achievement of corporate objectives and performance improvements. The same is true of equal pay claims.</p>	<ul style="list-style-type: none"> ▪ The Council is in the process of implementing the single status agreement and anticipates it will be implemented from April 2008. ▪ It has approved a new pay and grading structure and empowered the Chief Executive and Director of Finance to implement any required amendments to the proposed pay structure and the conditions of service package. ▪ It has also established a Modernising Employment Sub-Committee to take single status forward. ▪ The Council is progressing outstanding equal pay/Value Employment Tribunal claims. 	<p>We will track progress in this area and report in the annual report to members.</p>

No	Risk	Management assurances	Planned audit action
3.	<p>There is a risk that significant assumed savings/ efficiencies are not based on realistic implementation plans.</p>	<ul style="list-style-type: none"> ▪ The Budget Working Group scrutinises and considers all financial pressures and their effect overall on Council's finances and efficiencies. Regular reports are made to Committees on progress in meeting efficiency targets and spend against the budget. ▪ For the 2008/09 budget, services undertook risk assessments on potential savings and a number of proposed savings were reinstated if the risk was considered high. ▪ The Council set a target of reducing management costs by 20% and staffing levels by 500 by 2009 to meet budget pressures. ▪ Efficiencies are identified through a variety of sources including the energy management performance plan, Business Improvement Team and asset management initiatives. ▪ Corporate Procurement Unit (CPU) has a remit to be responsible for all goods and service procurement with the exception of care commissioning and certain major projects. 	<p>We will monitor the progress on these areas throughout our audit appointment and incorporate comments in annual reports to members where necessary.</p>
4.	<p>ICT is central to the effective delivery of front line services and delays in delivering key ICT projects could impact on the effectiveness of front line services.</p>	<ul style="list-style-type: none"> ▪ To alleviate the pressure on the ICT function in procuring ICT services and implementing the Pathfinder North project the current ICT services contract was extended for a further year. ▪ A project plan was agreed to procure and deliver a new contract for ICT services. 	<p>We will monitor the progress on this area throughout our audit appointment and incorporate comments in annual reports to members where necessary.</p>

Using performance management to drive service improvement

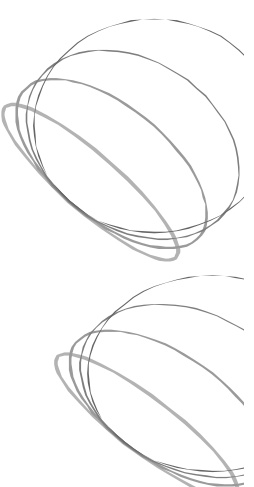


Although the Councils are actively involved in a number of improvements many do not yet have a fully effective and comprehensive performance management systems in place. Councils have also recognised the need to improve the reporting of performance to the public.

No	Risk	Management assurances	Planned audit action
1.	<p>Without an effective corporate performance management system elected members and senior managers will be unable to form an overall view of how their council is performing across all areas of activity. Councils also need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and of high quality.</p>	<ul style="list-style-type: none"> ▪ The Council is developing outcome measures related to its Programme for Administration and corporate plan which recognise the need to improve performance. ▪ A matrix of measures include the baseline position in 2006/07; target for the end of the 2010/11 financial year and target profile over the intervening period; linkages to service plans, risk registers and the single outcome agreement; and actions to achieve the targets and/or measures. ▪ Quarterly performance reviews by the Chief Executive and Director of Finance in conjunction with service directors will continue to review progress against agreed outcomes. ▪ The Council is exploring the possibility of using a new model for local authority performance management based on European Foundation for Quality Management. 	<p>We will monitor progress on developing the corporate performance system throughout our audit appointment and incorporate comments in annual reports to members where necessary.</p>

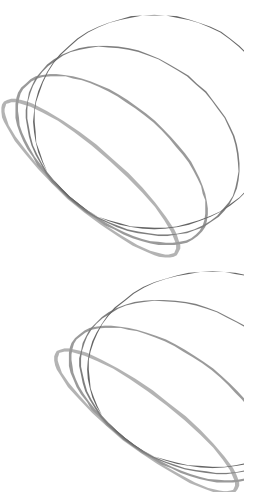
No	Risk	Management assurances	Planned audit action
2.	There are risks that information provided to the public does not give a comprehensive or balanced picture of performance.	<ul style="list-style-type: none"> ▪ The Council will report outcomes related to the Programme for Administration at a number of levels including corporate (to the Council), service (to the appropriate committee), ward and, where linked to the single outcome agreement, to the community planning partnership. The public will have access to all reports. ▪ The Council is continuing its pan-Highland reporting through a number of vehicles including newspaper supplements, council tax leaflets and through its' website. ▪ It is also continuing with service specific reporting directed at specific service users for example in terms of schools performance and performance in council care establishments. 	We will review performance reporting as part of audit of the performance management system and incorporate comments in annual reports to members where necessary.
3.	Business continuity planning needs to minimise disruption to important systems caused by major failures or disasters.	<ul style="list-style-type: none"> ▪ The Council is in the process of implementing recommendations made by Audit Scotland in its report on business continuity planning. 	We will review progress on implementing recommendations and incorporate comments in the annual report to members.

Working with communities and partners



Increasingly Councils are dependent on partnership working to deliver service improvements. Although high level strategic themes are agreed, the extent of joint working varies across Scotland.

No	Risk	Management assurances	Planned audit action
1.	Partnerships in which the council is involved may not deliver the intended improvements in services or community wellbeing. Robust performance reporting arrangements based on outcomes are not in place to demonstrate any improvement or deterioration in service provision	<ul style="list-style-type: none"> ▪ The Council is developing a new community plan based on the Single Outcome Agreement. The Agreement will reflect the Government's national outcomes and will require the co-operation of all partners to ensure outcomes are delivered. ▪ The Council proposes to complete a single outcome agreement with NHS Highland, Highlands and Islands Enterprise and Northern Constabulary by March 2008. ▪ The Scottish Government has asked councils to conclude full partnership agreements with community planning partners by March 2009. The Council proposes to have a full agreement with all partners by October 2008. ▪ The single outcome agreement will have a performance framework to demonstrate improvements in services. ▪ The Council is looking at how it will work with the voluntary sector including developing a compact, commissioning services and grant aiding the sector. To assist this process a conference was arranged for 7 March 2008 between the interested voluntary and public sector bodies. ▪ At a local level the Council invites its public sector partners to ward forums. ▪ Moray Council has a project plan to deliver the North of Scotland shared services initiative and Highland Council has provided the project manager. 	We will track progress and report in the annual report to members.



A modern and streamlined workforce

People play the key role in the delivery of high performing services and Councils may not have the right skills, in the right place, at the right time.

No	Risk	Management assurances	Planned audit action
1.	<p>Successful delivery of Council services, whether directly by Council staff or by others and regularly monitored by experienced managers, is dependent on the capacity, capability and competency of the workforce.</p>	<ul style="list-style-type: none"> ▪ 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 aims to assist the Council in its aim to ensure a suitably trained workforce to meet current and future demand for services. ▪ As part of the implementation of single status agreement, the Council has taken the opportunity to review, redesign and modernise working practices in some areas, including operational services which have been redesigned around business needs and areas where there is flexibility around working hours. A move towards more generic job descriptions, which would allow for more flexibility around services, is also on the agenda. 	<p>We will track progress and report in the annual report to members.</p>
2.	<p>Lack of easy access to good, quality workforce information will affect the quality of any decisions made.</p>	<ul style="list-style-type: none"> ▪ The personnel module of the payroll system is currently being rolled out and we anticipate it will improve the availability of management information on the workforce. 	<p>We will track progress and report in the annual report to members.</p>