

**The Highland Council**  
**2015/16 Annual Audit Report**

The Highland Council  
Audit and Scrutiny Committee

29 September 2016

## The Highland Council 2015/16 Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the annual accounts are approved and certified. We also present for your consideration our draft annual report on the 2015/16 audit which identifies significant findings from the annual accounts audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the annual accounts have been certified.
2. Our work on the annual accounts of The Highland Council, Highland Council Charitable Trusts and Highland Charities Trusts is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 30 September 2016 for the council and the charitable trusts. The proposed reports are attached at Appendix A (council), Appendix B (Highland Council Charitable Trusts) and Appendix C (Highland Charities Trusts). There are no anticipated modifications or qualifications to the independent auditor's reports.
3. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected.
5. A number of presentational and monetary adjustments were identified within the council's annual accounts during the course of our audit. These were discussed with officers who agreed to amend the unaudited accounts. The impact of these adjustments is to decrease the deficit on the provision of services by £2.797 million and increase the surplus on the revaluation of non current assets by £3.294 million. Net assets (and reserves) have increased by £6.509 million.

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6. Presentational and monetary adjustments were also identified within the financial statements of the Highland Charities Trusts during the course of our audit. These were discussed with officers who agreed to amend the financial statements. The effect of these adjustments is to increase the surplus for the period by £5,335 and reduce the opening cash and bank balances by £5,335. There is no impact on the closing statement of balances.
7. A number of monetary errors have not been processed through the financial statements by management. If adjusted this would have a net effect of reducing the deficit on the provision of council services by £0.581 million and the net assets (and reserves) on the Balance Sheet by £0.581 million. Management explained that these adjustments were not material to the financial statements. There were no unadjusted errors in respect of Highland Council Charitable Trusts or Highland Charities Trusts.
8. As part of the completion of our audit we seek written assurances from the Director of Finance on aspects of the annual accounts and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix D. This should be signed and returned by the Director of Finance with the signed annual accounts prior to the independent auditor's opinion being certified.

### **Outstanding matters - if none, delete section**

9. There are some areas where we still require additional information and these are identified below:
10. **Letter of representation.** This letter, otherwise known as the ISA 580 letter, is required immediately before the certification of the annual accounts on 30 September 2016.
11. **Common Good Fund Accounts.** The audit of the Common Good Fund accounts is substantially complete. A verbal update on the findings from this audit will be provided at the Audit and Scrutiny Committee meeting on 29 September 2016.

## APPENDIX A: Council's Proposed Independent Auditor's Report

### Independent auditor's report to the members of The Highland Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of The Highland Council and its group for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Funds Accounts, the Charitable, Education and Other Trust Funds Accounts and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the Director of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and

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- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA  
Assistant Director (Audit Services)  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

30 September 2016

## Appendix B: Highland Council Charitable Trusts' Proposed Independent Auditor's Report

### Independent auditor's report to the trustees of Highland Council Charitable Trusts and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Highland Council Charitable Trusts for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis. This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2016 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1),(2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

### Opinion on other prescribed matter

In my opinion the information given in the Annual Report and Financial Statements for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I am required to report by exception**

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA  
Assistant Director (Audit Services)  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1 BT

30 September 2016

Stephen Boyle is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

## Appendix C: Highland Charities Trust's Proposed Independent Auditor's Report

### Independent auditor's report to the trustees of Highland Charities Trust and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Highland Charities Trust for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis. This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2016 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1),(2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

#### Opinion on other prescribed matter

In my opinion the information given in the Annual Report and Financial Statements for the financial year for which the financial statements are prepared is consistent with the financial statements.



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### Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA  
Assistant Director (Audit Services)  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1 BT

30 September 2016

Stephen Boyle is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

## APPENDIX D: Letter of Representation (ISA 580)

Stephen Boyle, Assistant Director  
Audit Scotland  
4th Floor  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

Dear Stephen

29 September 2016

### Annual Accounts 2015/16

1. This representation letter is provided in connection with your audit of the financial statements of:
  - The Highland Council and its group for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and its group, as at 31 March 2016 and its comprehensive net expenditure for the year then ended
  - The Highland Council Charitable Trust for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements properly present the receipts and payments of the charity for the year ended 31 March 2016 and its statement of balances at that date
  - The Highland Charities Trust for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements properly present the receipts and payments of the charity for the year ended 31 March 2016 and its statement of balances at that date
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive, Directors, the Council and trustees, the following representations given to you in connection with your audit of The Highland Council and its group, the Highland Council Charitable Trusts and the Highland Charities Trust for the year ended 31 March 2016.

### General

3. I acknowledge my responsibility and that of The Highland Council and the Charity trustees for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by The Highland Council and its group and the charitable trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Council's annual accounts, including the Management Commentary and Remuneration Report, presents a balanced picture of The Highland Council and the charitable trusts and is consistent with the annual accounts. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

5. I confirm that the Highland Council Charitable Trusts and the Highland Charities Trust are the only trusts that require an audit where the sole trustee is The Highland Council. The information given in the financial statements, include the Trustee's Annual Reports, presents a balance picture of the Trusts and is consistent with the financial statements. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

### **Financial Reporting Framework**

6. The Council's financial statements have been prepared in accordance with the Code of Practice on the Local Authority Accounting in the United Kingdom 2015/16 and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014 including all relevant presentation and disclosure requirements.
7. The charitable trusts' financial statements have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, Charities Accounts (Scotland) Regulations 2006 (as amended), Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) (the SORP) and the provisions of the charities' constitutions.
8. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of The Highland Council and its group, and the Highland Council Charitable Trusts and the Highland Charities Trust for the year ended 31 March 2016.

### **Accounting Policies & Estimates**

9. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
10. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

### **Related Party Transactions**

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority in the United Kingdom 2015/16.

### **Events Subsequent to the Date of the Statement of Financial Position**

12. Other than the disclosures within the notes to the accounts, there have been no material events since the dates of the Balance Sheets which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the date of the Balance Sheets no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

### **Corporate Governance**

14. I acknowledge as Section 95 Officer and as treasurer to the Trusts my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2016, which require disclosure.

### **Fraud**

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

### **Assets**

17. The assets shown in the Council Balance Sheet and the charitable trusts' statements of balances at 31 March 2016 were owned by The Highland Council, other than assets which have been purchased under operating leases, and the charitable trusts. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

### **Liabilities**

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2016.

### **Carrying Value of Assets and Liabilities**

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

### **Provisions**

20. Provisions have been made in the Council's financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2016 and of which The Highland Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2016.

**Commitments**

21. All commitments under capital contracts have been disclosed in Note 29 to the Council's accounts. Any other significant commitments or obligations which might adversely affect the Council have been disclosed.

**Leases**

22. All leasing arrangements have been reviewed and correctly classified as operating or finance within the financial statements. Lease arrangements granted by the Council have been classified and disclosed within the financial statements.

**Loans Fund**

23. All borrowings have been confirmed as being compliant with the provisions of the Local Government (Scotland) Act 1975.

**Common Good Funds and Trust Funds**

24. In my opinion, common good assets, liabilities and revenue transactions within the financial statements are materially complete. Similarly, all assets and liabilities and revenue transactions relating to charitable trusts managed by the council have been properly separated from the council's single entity accounts and are reflected within the trust fund accounts.

**Group Accounts**

25. In my opinion, the group assets, liabilities and revenue transactions within the annual accounts are materially complete. The group boundary has been reviewed in accordance with the Code and there are no material entities that have been omitted from consolidation within the financial statements.
26. I have advised the auditor of all significant financial issues with the financial statements of group entities, including any qualifications or modified opinions on the financial statements of the group entities. In making these assertions, I am reliant on the opinions of the external auditors of group entities.

**Pension Fund**

27. The pension assumptions made by the actuary in the IAS 19 report for The Highland Council have been reviewed and I confirm that they are consistent with management's own view.

**Other Matters**

28. Except as disclosed in the financial statements, the results for the period were not materially affect by:
- transactions of a sort not usually undertaken by the Council of the charitable trusts
  - circumstances of an exceptional of non-recurrent nature
  - charges or credits relating to prior periods
  - any charge in the basis of accounting.

Yours sincerely

Derek Yule  
Director of Finance



# The Highland Council

2015/16 Annual audit report to Members and the Controller of Audit

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## Key contacts

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

Stephen Boyle is the engagement lead for the audit of The Highland Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of The Highland Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Our independent auditor's report on the council's 2015/16 financial statements is unqualified
- Our independent auditor's reports on the financial statements of the two charitable trusts administered by the council are unqualified
- There was evidence of review of the accounts document prior to submission for audit, and the management commentary was greatly improved through the use of graphics to explain the council's financial results.
- The number and nature of the changes required as a result of the audit process, however, demonstrates that the council has more to do to improve its arrangements for financial accounting and reporting.

## Financial management and sustainability

- The council has to deliver savings of £39.9 million in 2016/17 and faces a similar funding gap for 2017/18 and 2018/19. Difficult decisions have already been made with 341 staff leaving the council as a result of its voluntary redundancy (VR) scheme. The Chief Executive recognises that more needs to be done and has initiated a fundamental redesign of council services.
- The council has reduced its reserves to the minimum level recommended by CIPFA (2% of revenue expenditure) as a result of the Voluntary Redundancy scheme in order to generate savings of £10.5 million per annum. Expenditure continued to be contained within budget in 2015/16.

## Governance and transparency

- Overall, the council's governance arrangements operated effectively during 2015/16. There is scope, however, to improve members' responses to requests for related party transactions with the council.
- Appropriate systems of internal control are in place except for those within the general and purchase ledger control systems
- The council has an effective internal audit function and sound anti-fraud arrangements are in place.

**Best Value**

- The council has a well developed framework in place for monitoring and reporting performance against strategic priorities. 89% of the council's commitments were either complete, progressing well or performance was being maintained in 2015/16.
- Public performance reporting has been improved through the use of infographics and enhancements to the council's webpages to make performance information more accessible to the public.
- Workforce plans need to be revisited to reflect the impact of the council's voluntary redundancy scheme.

**Outlook**

- In common with other councils, The Highland Council faces the key challenges of reducing budgets, an aging population with higher levels of need and public expectation of high quality services. Its remote location and rural geography brings further challenges in service delivery and the redesign of services. Continuing effective partnership working and the successful implementation of its transformational savings programme will be essential to make the best use of available resources supported by strong governance and leadership.

# Introduction

1. This report is a summary of the findings arising from the 2015/16 audit of The Highland Council. The report is divided into sections which reflect our public sector audit model. These are:
  - audit of the 2015/16 financial statements
  - financial management and sustainability
  - governance and transparency
  - best value.
2. The management of the Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Council is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Council understands its risks and has arrangements in place to manage these risks. Members and Executive Leadership Team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the council will be Grant Thornton. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"> <li>We have completed our audit of the council and its group and issued an independent auditor's report which is unqualified.</li> </ul>
<b>Going concern</b>	<ul style="list-style-type: none"> <li>The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council's, its group's or associated charitable trusts' ability to continue as a going concern.</li> </ul>
<b>Other information</b>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li> </ul>
<b>Charitable trusts</b>	<ul style="list-style-type: none"> <li>We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by The Highland Council and issued an independent auditor's report which is unqualified for both of the trusts.</li> </ul>
<b>Group accounts</b>	<ul style="list-style-type: none"> <li>The council has accounted for the financial results of three subsidiaries and two associates in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £32.2 million.</li> </ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 29 June 2016, in accordance with the agreed timetable. The working papers were of an acceptable standard and we received good support from officers during the course of the financial statements audit.
11. In response to comments made in last year's Annual Audit Report, management had reviewed the accounts document prior to submission of the accounts for audit. The presentation of the management commentary was also greatly improved through the use of graphics to help explain the council's financial results. However, there remained a high number of audit adjustments which suggests that the council has more to do to improve its arrangements for financial accounting and reporting.

### Action plan no. 1

12. There is also scope for the council to improve the documentation of the key judgements made in the preparation of the financial statements. In particular, accounting for complex areas would benefit from more research and documentation prior to the submission of the accounts for audit. Documentation should include reference to legislation and the Code of Practice on Local Authority Accounting in the United Kingdom. In the absence of such documentation, there has been an over reliance on the auditor to research the accounting treatment and document their opinion for management.

### Action plan no. 2

## Overview of the scope of the audit of the financial statements

13. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee in March 2016.
14. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
15. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
16. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
18. 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.
19. We summarised our approach to materiality in our Annual Audit Plan. We revisited our planning materiality for 2015/16 on receipt of the council's unaudited accounts and concluded that our original calculation (£8.669 million) remained appropriate.
20. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £4.335 million (50% of materiality).
21. We report all misstatements greater than £100,000.
22. We set different levels of materiality for the council's group and the individual charities. For the council's group, planning materiality has been set at 1% of gross expenditure. Performance materiality is

higher for the group than the council as the group is not complex and the majority of the components are audited by Audit Scotland. For the council's charitable trusts materiality has been set at 1% of payments. Due to the size and nature of the investments held a separate materiality is appropriate for this area and has been set at 1% of gross assets. The levels of materiality, performance materiality and the reporting threshold are set out in Exhibit 1.

### Exhibit 1: Materiality levels

	Planning Materiality £	Performance Materiality £	Reporting Threshold £
Council	8,669,000	4,335,000	100,000
Group	8,220,000	5,754,000	100,000
Highland Council	257 (SRP)	128 (SRP)	15 (SRP)
Charitable Trusts	32,000 (SB)	16,000 (SB)	1,600 (SB)
Highland Charities	124 (SRP)	62 (SRP)	5 (SRP)
Trust	1,877 (SB)	938 (SB)	95 (SB)
SRP – Statement of Receipts & Payments			
SB – Statement of Balances			

## Evaluation of misstatements

### Council

23. The majority of the misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the audited financial statements. The impact of these adjustments is to decrease the deficit on the provision of services by £2.797 million and increase the surplus on the revaluation of non current assets by £3.294 million. Net assets (and reserves) have increased by £6.509 million. A number of amendments were also made to improve the presentation of the audited financial statements.
24. The adjusted errors include correction of:
- the accounting entries for the impact of the council's voluntary redundancy scheme (paragraphs 32 & 33)
  - errors in the calculation of the accumulated absences accrual (paragraph 38)
  - goods received not invoiced transactions which had not been cleared on receipt of the invoice (paragraphs 36 & 37)
  - errors in processing journal entries (paragraphs 46 – 49) and capital accounting entries (paragraphs 53 – 55).
25. Officers also identified two adjusting post balance sheet events for inclusion in the audited accounts.

26. Management decided not to amend the audited accounts for four monetary errors. If these had been adjusted they would have had the effect of reducing net expenditure, creditors, debtors and the capital adjustment account by £0.581 million, £0.750 million, £0.169 million and £1.168 million respectively; and increasing the revaluation reserve by £1.168 million. Management explained that these adjustments are not material to the financial statements and we concur with that view.
27. As the total value of misstatements identified exceeded our performance materiality level, we considered whether we needed to revise our audit approach and undertake additional audit testing. We undertook further testing on creditors to confirm that there were no additional capital grants that had been misclassified, and on capital accounting revaluations and disposals. We concluded that additional testing was not required in any other area as we had identified the full extent of the misstatement within the population, or that the error was an isolated error.

### Charitable trusts

28. Two misstatements were identified within the financial statements of the Highland Charities Trusts during the course of our audit. These were discussed with officers who agreed to amend the financial statements. The effect of these adjustments is to increase the surplus for the period by £5,335 and reduce the opening cash and bank balances by £5,335. There is no impact on the closing statement of balances. No adjustments were required to the financial statements of the Highland Council Charitable Trusts.



## Significant findings from the audit

29. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
  - Significant difficulties encountered during the audit
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management
  - Written representations requested by the auditor
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
30. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

## Significant findings from the audit in accordance with ISA260

### Costs of voluntary redundancy scheme

31. Audit testing identified that the pension strain on the fund costs for staff leaving under the council's voluntary redundancy scheme had been double counted within the unaudited accounts. Errors were also made in accounting for these costs. As a result, service gross expenditure, creditors, provisions, net pension liability (and the pensions reserve) were overstated by £3.975 million, £2.393 million, £0.973 million, £0.609 million respectively, and the general fund was understated by £3.975 million.
32. All of the costs of the council's voluntary redundancy scheme had been included as non distributed costs within the council's unaudited accounts. Only termination benefits that arise from an employee retiring early (pension strain) should be included within non distributed costs. As a result, service gross expenditure was understated and non distributed costs were overstated by £10.9 million.
33. The audited accounts have been amended to correct these misstatements.

### Valuation of Inverness Town House

34. Inverness Common Good Fund is undertaking an extensive programme of renovation work on the Inverness Town House. Expenditure of £1.3 million was incurred in the year and contracts have been awarded for a further £2.5 million in 2016/17. The District Valuer valued the Inverness Town House at nil value as at 31 March 2016 (£2.3 million as at 31 March 2015). We were advised that this was because expenditure which has yet to be incurred had been factored in to arrive at its market value. The land the building sits on (valued at £0.500 million at 31 March 2015) was now also valued at nil. The Inverness Town House is used by the council in provision of its services and so, in our opinion, this asset could be better categorised as an operational building within the group accounts. We have questioned whether market value is the most appropriate basis for its valuation, as it could be argued that it is a specialist building and so should be valued at depreciated replacement cost. The Director of Finance has agreed to review the categorisation and valuation basis of this asset prior to the preparation of the 2016/17 accounts.

**Action plan no. 3**

## Significant findings from the audit in accordance with ISA260

### Creditors – goods received not invoiced

35. The unaudited accounts include £1.290 million of creditors for goods received but not invoiced at the year end. Audit testing of a sample of transactions making up this balance identified that around 65% of the value tested was not a valid creditor at the year end. Management agreed to amend the audited accounts for this error. As a result, gross expenditure and creditors have been reduced by £0.257 million in the audited accounts. We used the results of our testing to extrapolate the overall error in the population (£0.838 million). After deducting the actual error identified by our testing (£0.257 million), the remainder (£0.581 million) has been treated as an unadjusted error within the audited accounts.
36. These results demonstrate that council staff need more guidance and training on the proper operation of this module within the council's new financial management system. Checks should be introduced as part of the final accounts preparation process to provide assurance to the Director of Finance that the goods received not invoiced balance in the unaudited accounts is accurate.

**Action Plan No.4**

### Accumulated absences accrual

37. Audit testing identified an error in the spreadsheet used to calculate the accumulated absences accrual included in the unaudited accounts. The council corrected the spreadsheet which identified that staff costs and creditors had been understated by £0.374 million. The audited accounts have been amended to correct this misstatement.

## Significant findings from the audit in accordance with ISA260

### Misclassifications within the Comprehensive Income and Expenditure Statement

38. The council revisited its SerCoP analysis following the introduction of its new financial management system. Our review of the new analysis noted errors in the mapping of ledger codes to the SerCoP analysis. As a result, Central Services to the Public gross income and gross expenditure were overstated by £61.458 million and £58.546 million respectively, Planning & Development gross income and gross expenditure were understated by £6.407 million and £2.278 million respectively and Housing gross income and gross expenditure by £55.051 million and £56.268 million respectively.
39. Audit testing identified a number of misclassifications of income between capital grants and contributions and gross income within the unaudited CIES. As a result, gross income was overstated and capital grants and contributions were understated by £0.417 million.
40. Capital grants totalling £3.752 million received from the Scottish Government to fund the purchase of land for affordable housing were credited as gross income within the unaudited CIES instead of being included as capital grants and contributions.

### Misclassifications within the Balance Sheet

41. The unaudited accounts included three deposits totalling £9.2 million as cash and cash equivalents which should have been classified as short term investments as they were placed on deposit for more than 3 months.
42. Vacant and Derelict Land Fund (VDLF) and Smart City capital grants which had not been spent at the year end were included in creditors within the unaudited accounts instead of as capital grant receipts in advance. As a result, creditors were overstated by £5.540 million, capital grant receipts in advance were understated by £5.122 million and capital grants and contributions in the CIES were understated by £0.418 million (to match grant funding with expenditure incurred in the year).
43. The council modified the soft loan made to Inverness Airport Business Parks Limited during 2015/16, and charged the interest adjustment of £0.551 million to the Financial Instruments Adjustment Accounts. All soft loans extended or modified since March 2007 require to be charged to the General Fund.
44. The audited accounts have been amended to correct these misclassifications.

## Significant findings from the audit in accordance with ISA260

### Journal entries processed in error

45. As part of the year end processes, finance staff process journal entries to eliminate internal income and expenditure within the CIES. Audit testing identified that one of these journals had been posted the wrong way round. As a result, gross income and gross expenditure were overstated by £23.6 million within the unaudited accounts.
46. Debtors and creditors were overstated by £2.9 million within the unaudited accounts due to the erroneous processing of a journal entry for March contributions due to the pension fund at 31 March 2016. These contributions had already been included with the intercompany balance with the pension fund and so this journal was processed in error.
47. Debtors and creditors were overstated by £0.823 million within the unaudited accounts as the journal to correct duplicate debtor invoices raised in error was posted to a creditor ledger code instead of the accounts receivable code.
48. Debtors and creditors were overstated by £0.419 million within the unaudited accounts as expenditure relating to the new year was included as both a creditor and prepayment.
49. The audited accounts have been amended to correct these misstatements.

### Adjusting post balance sheet events

50. The unaudited accounts included a contingent liability for a claim submitted by the contractor for the River Ness Flood Alleviation Scheme. During the course of the audit we were advised that the adjudication panel had made an award of £1.7 million in favour of the contractor. The council has treated this as an adjusting post balance sheet event and amended the audited accounts to increase non current assets and short term creditors by £1.7 million.
51. In previous years, we commented that the council had made a provision to meet the costs arising from equal pay compensation claims. After submission of the accounts for audit, the council revisited its equal pay provision following advice from its legal advisers and decided to increase the provision by £1.250 million. We consider the level of provision to be adequate at this time. Although, the ultimate cost to the council remains uncertain, management will review the equal pay provision annually to take account of any legal developments.

## Significant findings from the audit in accordance with ISA260

### Capital accounting and commitments

52. A number of adjustments were required to the non-current assets figures included in the unaudited accounts due to errors in the council house revaluation, the misclassification of capital additions as operational assets and duplicate assets being included on the asset register. The overall impact of these adjustments is to increase Property, Plant & Equipment by £2.680 million, increase Assets Held for Sale by £0.055 million, increase the Revaluation Reserve by £3.292 million and reduce the Capital Adjustment Account by £0.557 million.
53. The Inverness West Link capital project reached another important milestone in its delivery during 2016. The council awarded the contract (valued at £22.5 million) for Inverness West Link Stage 1 and the Canal Parks Enhancement works to Wills Bros Civil Engineering Ltd in March 2016. This major capital commitment was, however, not included within the capital commitments disclosures within the unaudited accounts. Our testing of a sample of the capital commitments included within the disclosure found that they had been overstated by £1.218 million. The audited accounts have been amended to correct these misstatements.

### Communication with the valuer

54. In 2014/15 we reported that there were issues around communication between the valuer and the finance department, this continued to be the case in 2015/16. As part of our 2015/16 audit a number of errors were identified with the council house revaluation in the unaudited accounts. The valuation for Ross & Cromarty area was queried by the capital accountant and the valuer advised that the figure was incorrect and required to be revalued downwards by £84 million. A member of the finance team accepted this explanation without considering that this effectively halved the value of council dwellings in this area. As a result of requests for further explanations by audit the valuer identified that this was incorrect and the Ross & Cromarty council dwellings required to be increased in value by £2.7 million. This highlights the importance of ensuring reasonableness checks are in place when considering information provided by the valuer. The impact, had this not been identified by audit, would have been a decrease in assets of £84 million (equivalent to 9.9% of the net book value of council dwellings as at 31 March 2016).

**Action plan no. 5**

## Significant findings from the audit in accordance with ISA260

### New financial management system

55. The council implemented a new financial management system for 2015/16. There were a number of areas where standard reports that we would expect to be available had not been provided as part of the working papers package. For example:
- A report of all supplier invoices outstanding at the year end could not be provided. Instead we were provided with a list of all invoices processed and all payments made since the system was introduced.
  - A report of all debtor invoices outstanding at the year end could not be provided and instead we were provided with a list of all sales invoices raised and all income received since the system was introduced
  - An aged debt analysis at the year end could not be provided to enable us to assess the adequacy of the council's bad debt provision. Management advised they had calculated the provision using an aged invoice, credit note and unmatched cash received listing.
56. In response to audit requests, management were able to generate reports from the financial management system to assist our audit work. Management should ensure that reports listing purchase ledger, sales ledger and goods received not invoiced balances are produced as part of the working papers package provided to audit in future years.

**Action plan no. 6**

### Charitable Trusts – governance documentation

57. As reported in 2014/15, the governance documentation for three trusts included within the Highland Council Charitable Trusts could not be located as a consequence of the age of these trusts. The classification of these funds between restricted, unrestricted and endowment funds could not readily be established. We were also unable to verify whether spend in these areas was in line with the original stated purpose for these individual trusts.
58. Disclosures in the accounts have been amended to highlight for which trusts governance documentation is not held and on what basis the trustees account for and use these funds. All funds are treated as endowments and where there is an absence of governance documentation the council relies on custom and practice to inform any decisions by the trustees in respect of the Trusts' expenditure and use of assets. We are not aware of any matters which would materially impact on the financial statements.

## Future accounting and auditing developments

### Highways network assets

59. The 2016/17 local government accounting Code will adopt a new measurement requirement, depreciated replacement cost basis, for the valuation of the highways network asset. This will have a significant impact on the value of local authority balance sheets. The council is actively working on this and has identified the increase in its assets will be nearly £5 billion.
60. The council's Whole of Government Accounts pack highlights that, in common with other councils, it will not be able to fully implement the Code in 2016/17. Sufficient, appropriate inventory data for land and footways and cycle tracks is currently unavailable and the council is not confident that it will be in place by 31 March 2017. Condition and age data is also not available for footways and cycle paths and, again, the council is not confident that it can be achieved by 31 March 2017.

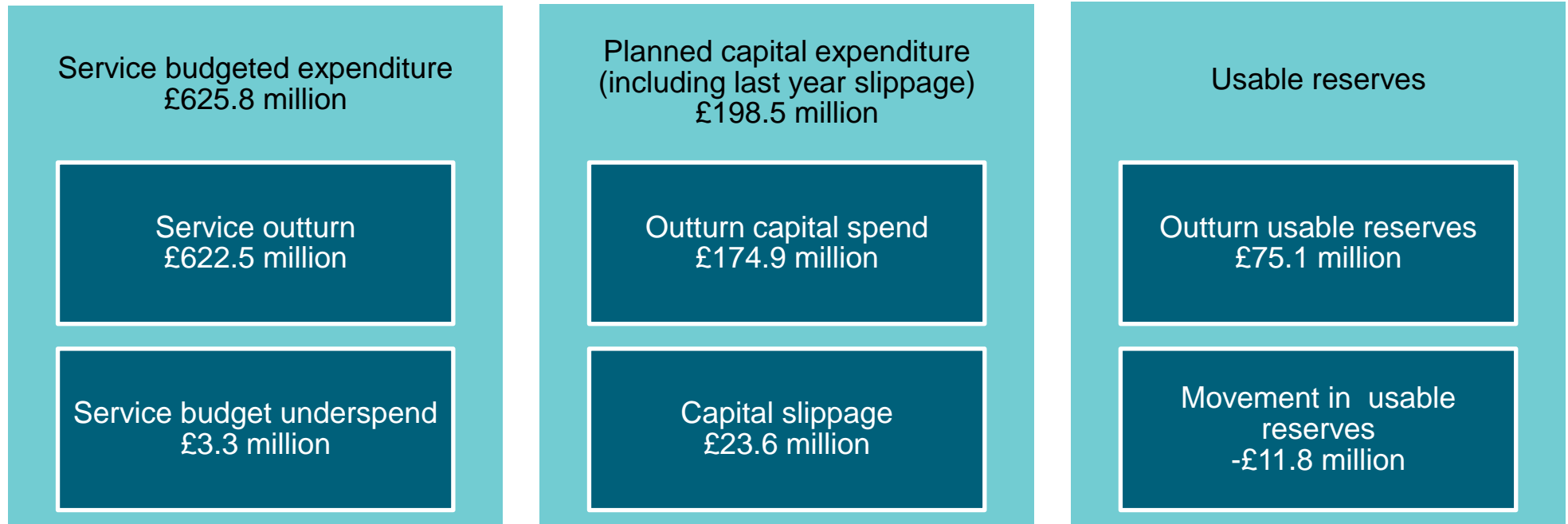
#### Action plan no. 7

### Code of Audit Practice

61. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011 and outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
62. The new Code increases the transparency of our work by making more audit reports available on Audit Scotland's website. In addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.
63. Also, under the new Code, appointed auditors are required to provide conclusions on the four dimensions of wider-scope public audit: financial sustainability; financial management; governance and transparency; and value for money.



# Financial management and sustainability



## Financial management

64. In this section we comment on the council's financial outcomes and assess the its financial management arrangements.
65. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

66. The council's annual accounts reported a deficit of £12.448 million on the provision of services in 2015/16. After adjusting this balance to reflect the statutory funding arrangements in place, and transfers to its other statutory reserves have been taken into account, the council reduced its general fund balance by £11.8 million. This represents an underspend of £5.6 million against the council's planned use of reserves (£17.4 million).
67. Overall, service budgets were £4.228 million (0.8%) underspent. All services delivered within budget except for Development & Infrastructure and Finance Services which overspent by £0.297 million and £0.021 million respectively. In addition:
- loan charges were £1.765 million less than budget due to continued low interest rates and delayed borrowing due to slippage on the council's capital programme
  - council tax income was £2.449 million more than budget due to an increase in the council tax base and improved recovery of prior year debt
68. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are, therefore, a direct consequence of the budget set for the year. In January 2015, the council set a break even budget for its HRA. This included a planned revenue contribution to capital of £4 million.
69. Overall, the HRA reported a small surplus of £0.324 million in 2015/16 which was transferred to the Capital Fund. Within this outturn there were a number of underspends (on homelessness, loan charges and central support costs) and higher than expected non-housing rental income which allowed for capital expenditure funded from revenue to increase by £0.750 million.
70. The management of the council's budgets is satisfactory. As noted at paragraphs 93 and 94, the council has to find savings of £39.9 million in the current financial year and £34.5 million in 2017/18 and 2018/19 to balance its budgets. The council's redesign project (refer paragraphs 96 to 98) is currently looking at the best way to deliver council services against the backdrop of reducing public sector funding settlements. Critical review of existing budgets will be a key factor in ensuring that this redesign project is a success.

## Capital programme 2015/16

71. The council spent £119.1 million on its general services capital programme in 2015/16 against a planned budget of £133.5 million (including slippage carried forward from previous years), resulting in an underspend of £14.4 million (10.8%). The majority of the programme was focused on improving the school estate through new builds, refurbishment and repair of existing schools; the River Ness flood prevention scheme; and roads and transport infrastructure. Slippage on the council's priority projects (£17.4 million) is being carried forward to enable them to continue to completion.
72. The Housing Revenue Account capital programme focused on the replacement of major components (e.g. heating systems) and new council houses. Actual spend was £55.8 million against a budget of £65 million, resulting in an underspend of £9.2 million (14.2%). We have been advised that this slippage is due to unutilised contingency sums and less than expected heating installations due to tenant opt-outs. As a result of this underspend and additional capital receipts in year, the HRA's borrowing was £11.7 million less than budget.
73. The council has a history of slippage within its capital programmes and has previously taken steps to include more projects in the programme than funding available to provide flexibility in managing the scheduling of projects to maximise expenditure. These steps, however, did not prevent slippage against both of its capital programmes in 2015/16.
74. The council's capital financing requirement (the amount it has to borrow to finance capital expenditure after other sources of finance, including government grants, are taken into account) increased by £78.4 million in 2015/16. The Director of Finance reviews the council's capital financing requirement on an annual basis and reports on a series of prudential indicators as recommended in the Prudential Code (a professional code of practice designed to support local authorities in taking capital investment decisions). Performance against these indicators is regularly reported to the Resources Committee and this helps the council plan its capital investment.

## Financial management arrangements

75. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the council
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.

76. The Director of Finance, as section 95 officer and a member of the council's Executive Leadership Team, has sufficient status to oversee the financial management of the council.
77. We reviewed the council's financial regulations, which are reviewed regularly, and concluded that they are comprehensive. The council's financial regulations are available on the council's website.
78. Financial monitoring reports (both revenue and capital) are submitted to the Executive Leadership Team on a monthly basis and to the Resources Committee each quarter. Service Committees receive more detailed budget monitoring reports for their service areas. Reports are comprehensive and provide explanations for significant variances.
79. Last year we reviewed the council's financial management arrangements, and concluded that the council's five year budget could be improved through the inclusion of scenario planning; capital investment activity; service demand and projected income; and clearer links to council strategies. In addition, it was not always clear how the council's spending decisions link to outcomes.
80. The Director of Finance agreed to review the council's budgeting process against the guidance set out in Audit Scotland's national report 'Scotland's public finances: a follow up audit'. This review did not result in any specific actions as the council already has a service redesign project underway to review whether the council is spending in the most effective way. It is acknowledged, however, that more needs to be done around benchmarking, and to demonstrate value for money and how spending decisions link to outcomes.
81. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

## Conclusion on financial management

82. We have concluded that the council's financial management arrangements are satisfactory. They could be further strengthened by improving the content of the council's medium term budget (financial strategy) and to better evidence how spending decisions link to outcomes.

## Financial sustainability

83. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
84. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.
85. Effective long-term financial planning, asset management and workforce planning (see paragraphs 180 to 182) are crucial to sustainability.

## Reserves

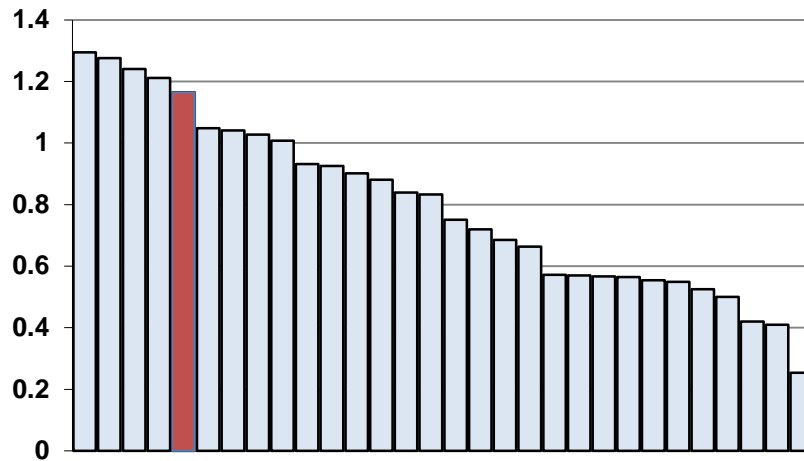
86. Usable reserves form part of the council's financial management strategy. The overall level of usable reserves held by the council decreased by £11.8 million compared to the previous year and totalled £75.1 million as at 31 March 2016 (see Exhibit 1 for details).
87. The General Fund balance has no restrictions on its use. The principal purpose of holding a General Fund balance is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

### Exhibit 1: Usable reserves

Description	31 March 2016 £ million	31 March 2015 £ million
General fund	30.410	42.240
Housing revenue account	7.328	7.328
Repair and renewal fund	1.670	1.711
Capital fund	30.550	30.631
Capital receipts reserve	2.407	2.202
Insurance fund	2.706	2.784
<b>Total usable reserves</b>	<b>75.071</b>	<b>86.896</b>

Source: *The Highland Council's 2015/16 financial statements*

88. The General Fund balance decreased by £11.8 million during 2015/16. This is mainly due to the decision to use General Fund balances to fund the costs associated with the council's voluntary redundancy scheme (£10 million) as part of its planned approach to securing its financial sustainability. A further £3.4 million of strain on the pension fund costs will be paid in 2016/17 and these have been earmarked within the General Fund balance (see paragraph 90).
89. The closing balance at 31 March 2016 is made up of earmarked commitments of £18.7 million and an unallocated balance of £11.7 million, 2% of annual running costs (2014/15: 3.6%). This position is in line with the council's revised policy which is to maintain uncommitted reserves at a minimum of £10 million and CIPFA best practice guidance of holding 2% - 4% of revenue expenditure.
90. The most significant earmarked balances include:
- Devolved School Management - £3.6 million
  - Voluntary Severance - £3.4 million
  - Strategic Change & Development Fund - £2.4 million
  - Developers' Contributions - £2.1 million.
91. Exhibit 2 shows how the council's usable reserves position in relation to its net revenue stream (including dwelling rents) compares to other Scottish councils. The council's position in comparison with other councils has deteriorated since last year following the impact of the council's voluntary redundancy scheme.

**Exhibit 2: total usable reserves as a proportion of net revenue**

Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney & Shetland)

**Financial planning**

92. The council set its 2016/17 general fund budget in February 2016. The 2016/17 budget was set at £555.7 million, a reduction of 5.5% on the budget set for 2015/16. In setting its revenue budget, the council identified the need for savings of £39.9 million to be delivered in 2016/17. The HRA set a budget of £50.8 million for 2016/17, an increase of 2.5% on the previous year.

93. The council also set indicative budgets for 2017/18 and 2018/19 and these show that similar levels of efficiency savings will be required to balance these budgets. The council has been proactive in its approach to identifying savings opportunities, but as noted at paragraph 175, the realisation of these savings is becoming progressively more challenging year on year.
94. As part of its strategy to bridge its 2016/17 funding gap, the council agreed to offer voluntary redundancy to 341 staff (275 FTE) resulting in a net saving of £5.9 million in 2016/17. The council acknowledges that these staff reductions will result in reduced service capacity and that a fundamental redesign of what and how services will be delivered in the future is required in order to secure its financial position.

**Council redesign project**

95. Following approval of its 2016/17 budget, the council established a Redesign Board of 16 members to lead and oversee the council's redesign project. Members agreed the statement of purpose, values and outcomes in June 2016. The project aims to:
- renew the council's purpose, ambition and priorities
  - develop proposals for affordable services and delivery options
  - explore the best options for public participation
  - to take on board the views of a wide range of stakeholders, including the public, staff and partners.

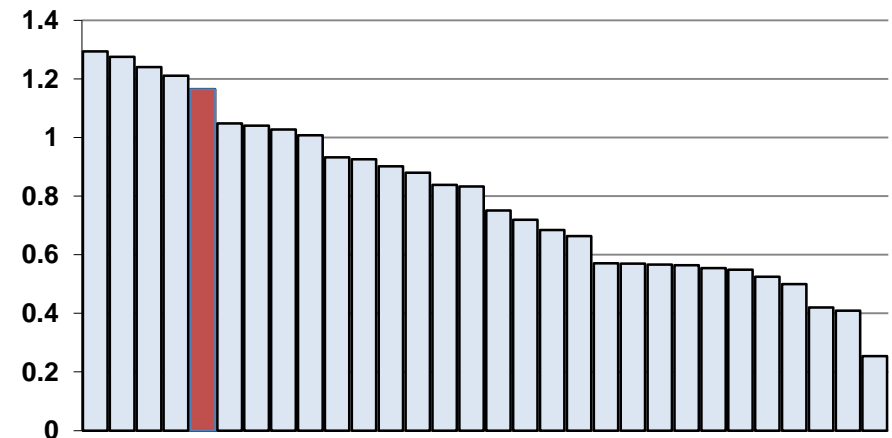
96. The Redesign Board has undertaken a high level review of individual council services and concluded that 120 functions are worthy of further review. These were selected on the basis that there could be an opportunity to deliver them differently or more efficiently. Statutory and non-statutory duties will be reviewed and re-prioritised. Recommendations will be made to Council in September 2016.
97. The final phase of the Redesign Board's work is to appraise identified options for change and make recommendations on budget decisions to Council in December 2016, and on structure changes in March 2017.

### Treasury Management

98. High levels of debt may reduce a council's budget flexibility as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
99. As at 31 March 2016 long term borrowing stood at £711.2 million, a decrease of £15.7 million on the 2015 borrowing level of £726.9 million. During the same period, short term borrowing increased by £73.7 million to £118.3 million. This is in line with the council's Treasury Management Strategy for 2015/16, which was to use of short term borrowing and internally generated funds before long term borrowing facilities. Interest payable and similar charges increased by £0.5 million to £46.8 million in 2015/16.

100. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 3 shows long term borrowing as at 31 March 2016 as a proportion of net revenue stream for all mainland councils in Scotland. The Highland Council's debt is high in comparison to other Scottish councils.

**Exhibit 3: Scottish councils' long term borrowing as a percentage of net revenue streams**



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

## Pension liability

101. The council is a member of the Highland Council Pension Fund which is a multi employer defined benefit scheme. In accordance with IAS 19 (Retirement Benefits), the council has recognised its share of the net liabilities of the pension fund in its balance sheet.
102. The pension liability represents the difference between expected future pension payments and the underlying value of pension assets available to meet this cost.
103. The valuation as at 31 March 2016 provided by the scheme's actuary reduced the council's share of the deficit from £418.1 million last year to £313.6 million this year. This is mainly due to an increase in the discount rate from 3.2% to 3.5% used to estimate the current value of the pension fund's estimated liabilities.
104. At the last triennial valuation the Highland Council Pension Fund was 96.2% funded and had assets of £1.279 billion. The next valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

## Conclusion on financial sustainability

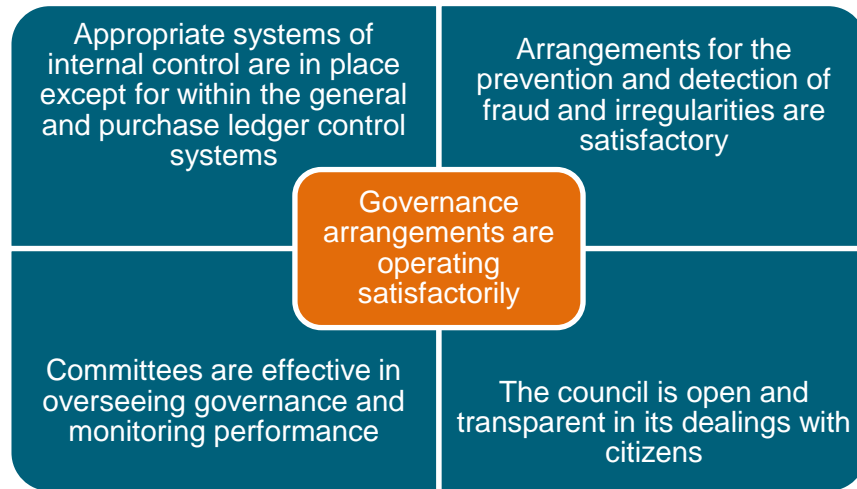
105. We have concluded that the council has an adequate level of reserves, and is containing its expenditure within annual budgets. A medium term financial plan is in place but, despite the significant reduction in staff numbers achieved in 2015/16, the council continues to have a significant funding gap to bridge over the next 2 years. Rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. The council's redesign project will be essential in ensuring the financial sustainability of the council in the coming years.

## Outlook

106. Councils face increasingly difficult financial challenges. Public sector budgets are reducing and demand for council services is increasing. As noted at paragraph 93 above, the council needs to make £40 million of savings to deliver within its 2016/17 budget. With further budget reductions expected, the council faces tough decisions to balance its future budgets. These decisions must be based on a clear understanding of the council's financial position and the longer term implications of decisions on services and finances.



# Governance and transparency



**107.** Elected members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

**108.** The corporate governance framework is centred on The Highland Council which is supported by the following strategic committees:

- Community Services Committee

- Education, Children & Adult Services Committee
- Planning, Development & Infrastructure Committee
- Resources Committee

- 109.** Other committees include the Audit and Scrutiny Committee which meets on a regular basis to consider reports from internal and external audit and scrutinise performance.
- 110.** The council's standing orders, setting out how meetings will be conducted, were last reviewed and approved by members in December 2015. The Scheme of delegation, which set out the membership, powers and responsibilities of the council's committees, sub-committees and the areas where decision making has been delegated to officers, were last reviewed and approved by members in June 2016. Both documents are available on the council's website and are in line with our expectations.
- 111.** The council's charitable trusts hold cash balances totalling £1.258 million, investments valued at £2.157 million and a rental property valued at £0.150 million as at 31 March 2016. All council members are trustees of the charities and have a duty to ensure that the charitable funds are managed responsibly and used for their intended purposes. In previous years we have reported that no trustee meetings had taken place and recommended that regular meetings should be held to consider and agree how charitable funds are managed and disbursed. In response, the council agreed to review the charitable trusts' governance arrangements. This review is now scheduled for completion by the end of October 2016.

## Local code of corporate governance

112. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE *Framework Corporate Governance in Local Government: A Keystone for Community Governance*. The local code is subject to annual review and update by the Depute Chief Executive. Each year, internal audit review the council's compliance with the local code and report their findings to the Audit and Scrutiny Committee.

## Internal control

113. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

114. The detailed findings from our review are reported in a separate 'Interim Report' which includes recommendations to improve the council's internal control system. Our controls work concluded that there were significant weaknesses with the operation of the general ledger and accounts payable modules of the council's new financial management system and as a result, we were unable to take our planned controls assurance from these systems. We revised our audit approach for these areas of the financial statements as follows:

- increased testing of journal entries was undertaken as finance staff can raise, authorise and process their own journal entries (refer to paragraphs 46 to 49)
- the year end purchase ledger control account, sales ledger control account and bank account reconciliations were subject to detailed review as they had not been kept up to date throughout 2015/16
- additional testing of suppliers invoices and goods received not invoiced balances was undertaken as the new financial management system introduced purchase order commitment accounting for the first time (refer to paragraphs 56 to 57).

## Internal audit

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

116. Our review concluded that The Highland Council's internal audit section operates in accordance with the majority of the Public Sector Internal Audit Standards. In order to achieve full compliance an external assessment is required to take place at least every five years. Plans are in place for West Dunbartonshire Council to assess the council's internal audit service during 2016/17.

117. We placed formal reliance on internal audit's work on the following systems used to prepare the accounts: debtors, cash income, housing rents, council tax (valuation) and non domestic rates (valuation). We also relied on the focused testing of the other main accounting systems undertaken to support the Internal Audit & Risk Manager's opinion on the council's system of internal control including review of the description, design and operating effectiveness of the controls in operation at CAPITA who host the council's new financial management system. In addition, we relied on internal audit's annual review of the local code of corporate governance as part of our wider governance work.
118. Three internal audit staff, including the Head of Audit and Risk Management have left or will leave the council's employment under its voluntary redundancy scheme. Following this significant reduction in the audit team, the Director of Finance merged internal audit and the performance team to create an 'Audit & Performance' section in order to enhance the size of the team and bring together financial audit and performance management with a greater focus on value for money reviews.
119. Following a competitive recruitment process the council's former Corporate Performance Manager was appointed to lead the new Audit & Performance team. Public Sector Internal Audit Standards require that the Chief Audit Executive must hold a professional qualification (CMIIA, CCAB or equivalent) and so the Chief Audit Executive role have been delegated to the Audit and Risk Manager.

## Risk management

120. Effective risk management facilitates good decision making and best use of resources, and will be essential to the successful delivery of the council's redesign programme.
121. The council has a risk management strategy which sets out the council's approach to risk management and how it aims to effectively manage its risks. The Executive Leadership Team reviews the corporate risk register six monthly and the results are then reported to the Audit and Scrutiny Committee for consideration by members. This provides members with the assurance that processes are in place to reduce the council's exposure to risk by ensuring that corporate risks are identified and actively managed by a named risk owner.

## ICT audit

122. Adequate back up and disaster recovery procedures must be in place to protect any financial management system. Expected controls include the regular back up the financial management system and the testing of the business continuity plan to ensure that the system can be restored in the event of a disaster.
123. The council's new corporate financial management system is hosted by CAPITA. CAPITA have confirmed that system back ups are taken daily and stored off site, and that a disaster recovery plan is in place and tested annually. The council, however, has no evidence to support CAPITA's assurances that back ups are taken daily and stored off site nor that the disaster recovery plan is regularly tested.

124. The council is aware of the risks associated with cyber attacks and is taking action to mitigate these. Procedures have been introduced to monitor and prevent cyber security threats, and the council has achieved Public Services Network (PSN) compliance which required the council to demonstrate good practice in the operation of their overall information security arrangements. Our review of the council's arrangements for prevention of cyber attacks noted the following areas for improvement:

- the council's risk register includes a general risk on information management and security, but does not separately recognise cyber attacks as a high priority risk. Separate inclusion would demonstrate that management have recognised these risks and taken action to mitigate against them
  - the council should consider likely antagonists and their potential motives in order to prepare appropriate defences against cyber attacks
  - the council has introduced compulsory information security training for all staff but cannot confirm that all staff have completed it as a record of completion is not kept. Cyber awareness learning and training is central to minimising the risks to information security
  - the council should give more consideration to insider threats and in particular provide ICT users with more information on how to stay safe and secure in their private use of ICT. In particular, senior officers should be made aware of how their (and their families) use of social media can provide information subsequently used to focus a cyber attack
- the council has identified cyber attacks in the past but does not record or monitor the impact or cost of these. This information is useful when considering the costs associated with taking action to mitigate against increasingly complex cyber attacks.

**Action plan no. 8**

125. Last year we noted progress had been made in developing business continuity plans for council services but that not all services had their business continuity plans in place. All service business continuity plans have now been prepared and approved by the relevant committees.

## Standards of conduct and arrangements for the prevention and detection of fraud and corruption

126. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and for having proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
127. The Councillors' Code of Conduct sets out members' responsibilities to disclose related party transactions with the council. Each year, finance staff e-mail all chief officers and members to request details of these transactions for potential disclosure in the council's financial statements. Last year we reported our concerns that finance staff assumed a nil return, if no response was received to the request and subsequent reminder. In response we were

advised that procedures would be reviewed and revised prior to the closure of the 2015/16 accounts.

128. 13 of the council's 80 members did not respond to this request or reminder in 2015/16. This is a significant improvement from the previous year when 33 members did not respond but still represents 16% of the council's members. As a result, members may not be complying with the councillor's code of conduct and related party disclosures within the annual accounts may be incomplete.

#### Action plan no. 9

129. The council has a zero tolerance policy towards fraud supported by a fraud awareness leaflet for staff which includes a fraud reporting hotline number. An anti-fraud and corruption policy is in place. Internal Audit have a dedicated fraud investigation team which includes one member of staff who has attained CIPFA Accredited Counter Fraud Specialist qualification.
130. A recent initiative publicising the council's approach to deterring, investigating and preventing fraud involved posters and leaflets being produced and displayed in council buildings including the Service Point network. One poster specifically referred to tenancy fraud. A number of referrals from the public have been received as a result of this campaign which resulted in seven properties being recovered and re-let.
131. We have concluded that the council's arrangements for the prevention and detection of fraud and corruption are satisfactory,

although it should be noted that no system can eliminate the risk of fraud entirely.

## National Fraud Initiative in Scotland

132. The National Fraud Initiative (NFI) in Scotland brings together data from councils, the police board, fire and rescue board, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. In addition, it provides assurance about the arrangements in place at each council for preventing and detecting fraud.
133. NFI data matches are provided to the council biennially by Audit Scotland. Data match investigation work for the 2014/15 NFI exercise is now complete and forms the basis of Audit Scotland's NFI report published in May 2016. Cumulative outcomes over the last decade in Scotland from NFI are £94 million with £10.5 million being identified from the last exercise in 2012/13.
134. We monitored the council's participation in the 2014/15 NFI exercise during 2015/16. The council identified 64 cases of claimant or customer error totalling £13,254 and this money is in the process of being recovered. No instances of fraud were noted although responses to matches were made without reference to the council's Corporate Fraud Team which means potential fraud cases may have been missed or incorrectly categorised.

135. There are no formal protocols for reporting the council's progress with NFI exercises to members. However, it is noted that the council reported progress made in investigating matches arising from the 2014/15 NFI exercise to the Resources Committee in August 2015.

## Freedom of information requests

136. The Freedom of Information (Scotland) Act 2002 (FOI) established a general public right of access to all information held by Scottish public authorities. The authority must respond to requests for information within 20 working days by providing the information requested or an explanation, with reference to legislation, of why the information is exempt from disclosure. The council's performance in relation to FOI requests is reported to the Executive Leadership Team and annually to the council in the review of the corporate plan.

137. The council received 1,411 FOI requests in 2015/16, a 5% reduction when compared to the previous year. This is the first year since 2009/09 that the number of requests has decreased. Individuals account for the largest proportion of requests (40%), followed by commercial organisation (21%), and the media (19%).

138. The statutory requirement to respond within 20 days was met for 81% (88% in 2014/15) exceeding the council's target of 80%.

139. Overall, we have concluded that the council's approach to managing FOI requests is effective.

## Integration of health and social care

140. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

141. The council and NHS Highland have operated integrated arrangements for the delivery of health and social care for adults and children, under a Partnership Agreement, since 1 April 2012, three years ahead of other councils.

142. In response to the 2014 legislation, the Partnership prepared 'The Highland Health and Social Care Partnership Integration Scheme' to set out the five year strategic direction of the Partnership.

143. Governance arrangements were also reviewed and the following set of good governance principles were agreed:

- each Lead Agency will have a governance structure that reflects single governance, single budget and single management
- each Lead Agency will adopt a Strategic Commissioning approach to working with partners across the public, independent and third sectors to develop the Strategic Plan
- the Partnership has agreed on the functions of scrutiny and governance and where these responsibilities are discharged
- the Partnership has a Strategic Plan which is shared and equally owned
- the commissioning agency will monitor the impact on outcomes.

144. Under the new arrangements, the lead agency (provider) will provide scrutiny over the delivery of services, and the commissioning agency will receive assurance reports based on the exercising of that scrutiny. Regular performance reports will be provided using an agreed format for both adult and children's services, and will focus on critical outcome indicators, as opposed to process or input indicators.
145. The new governance arrangements were implemented from April 2016. It will take some time for these arrangements to bed in and become fully effective.

## Welfare reform

146. The Department of Work and Pensions (DWP) is continuing to roll out the enhanced digital service known as "*Universal Credit Full Service*" which is designed to underpin its Universal Credit welfare reforms. The new service will go live in the Highland area during 2016/17. Inverness jobcentre began implementation in June 2016 and there are plans in place to roll-out to the remaining five Highland jobcentres by November 2016.
147. The digital service is designed to remove paperwork and the need for telephone calls. Claimants make their claim on the digital service, which is accessed via Gov.uk, through the creation of an online account. The claimant will be able to interact with their Work Coach and the UC service centre via their on-line account. The DWP intend making digital the primary channel for most working-age people to interact with the Department.

148. Over time, the council will see a reduction in the number of Housing Benefit claimants as increasing numbers of working age people claiming Universal Credit. However, the new arrangements only apply to new claims and to those claimants who report a change in circumstances that will trigger a claim for Universal Credit. Claimants on legacy benefits including Housing Benefit, that do not experience a relevant change in circumstances, will remain on their existing benefits until a migration exercise is undertaken to transfer them onto Universal Credit. This is expected to take place between 2018 and 2021.
149. The introduction of digital services will impact on rent arrears and there is likely to be an increased demand for welfare services, including personal budgeting support and on-line support services. The Head of Revenues and Business Support and the Benefits and Welfare Manager are working with DWP to scope such demand to ensure that DWP provide appropriate funding.

## Local scrutiny plan

150. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to the council on 12 May 2016.
151. The LSP identified nationally driven scrutiny work as well as the routine, scheduled audit and inspection work taking place through the annual audit process and the ongoing inspection of schools by Education Scotland and care establishments by the Care Inspectorate.

152. The LAN concluded that no additional scrutiny activity was required at the council although the following areas were highlighted as requiring ongoing monitoring by the scrutiny bodies:

- education (delivery of education): monitor impact of central support restructure and supporting self-assessment
- education (Community Learning & Development CLD): meeting requirements of CLD regulations including quality of CLD planning
- use of resources: recognising the level of budget savings the council is required to achieve
- workforce planning: effective workforce planning to support reduced workforce and redesign of services).

## Transparency

153. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. We have considered this under various headings including:

- clarity and presentation of annual accounts – the annual accounts comply with the Code and are available on the council's website. The management commentary makes good use of graphics to explain the council's financial results
- budget monitoring reports – refer paragraphs 67 to 71
- performance reporting – refer paragraphs 166 to 168

- register of interests – these are available on the council's website.

154. Council meetings are advertised on the council's website and agendas, supporting papers and minutes are made available in advance of all meetings. Committee meetings are filmed and broadcast over the internet on council's website, and are available for viewing for 12 months after the date of the meeting.

## Conclusion on governance and transparency

155. We concluded that the council has effective overarching and supporting governance arrangements in place which provide an appropriate framework for organisational decision making.

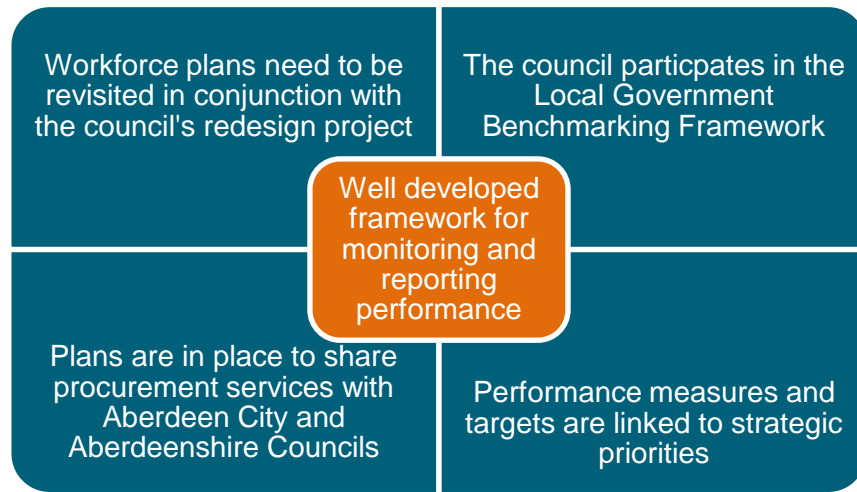
156. Overall, we concluded that the council is open and transparent. We have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny.

## Outlook

157. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.



## Best Value



- 158.** Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.
- 159.** The Highland Community Planning Partnership is responding well to the new statutory duties put in place through the Community Empowerment (Scotland) Act. Progress to date includes the development of a Highland Local Outcome Improvement Plan (LOIP) which will replace the single outcome agreement; and locality plans which respond to locally identified priorities targeted at communities which are most disadvantaged.

- 160.** Plans are well advanced to establish nine Community Partnerships across Highland to enable effective community planning at a local level, with statutory partners sharing the responsibility to support and facilitate such arrangements. Current arrangements for health and social care District Partnerships will be incorporated into the new local Community Partnerships, with initial meetings of these new partnerships commencing in autumn 2016.

### Performance management

- 161.** The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against '*Highland First*', which details the council's agreed priorities for the period to 2017. A number of performance measures have been established including service specific indicators, council wide indicators, single outcome agreement (SOA) indicators and statutory performance indicators.
- 162.** Performance information is recorded and reported on an electronic performance and risk management system, with service performance reviewed through quarterly performance reviews where service directors and senior managers are held to account by the Chief Executive. Challenge was enhanced at the beginning of this calendar year through the introduction of quarterly performance meetings between the Council Leader and Strategic Chairs and Vice Chairs, supported by the Corporate Audit and Performance Manager. This provides additional scrutiny by committee with performance reviews now reflecting a political as well as a management perspective.

163. The council prepares an annual report of corporate performance against the council's commitments and corporate performance indicators as set out in the performance framework for the council programme '*Highland First*'.
164. The council also participates in the Local Government Benchmarking Framework (LGBF) which brings together a wide range of information about how all Scottish councils perform in delivering services to local communities. This provides an opportunity to compare council performance over all the main service areas and to identify potential for further improvement on a local basis. The most recent report was issued in March 2016, based on information on the 2014/15 financial year. The council was in the top quartile of Scottish council in 14 (27%) of the nationally benchmarked indicators and in the bottom quartile for 13 (25%) indicators. This relative performance is consistent with the previous year.

## Overview of performance targets in 2015/16

165. The council's annual report on corporate performance for 2015/16 was considered at the Council meeting on 8 September 2016 and is now available on the council's website. This report sets out performance against the 72 commitments included under the four themes (Community Led Highland; Well Served Highland; A Fairer Highland; and Inverness City) within '*Highland First*'.
166. As at 31 March 2016, 64 (89%) of the council's 72 commitments were either complete, progressing well or performance was being maintained. For the remaining 8 (11%) commitments, performance was mixed. Particular challenges have been experienced in respect of health and social care targets, most notably in access to care services (where the council has yet to achieve a single point of access in every District); and delayed discharges (where 42 cases were delayed by more than 4 weeks resulting in an increase in the number of bed days lost during 2015/16).
167. Key commitments delivered or progressing well in 2015/16 include:
- the development of localism through the establishment of seven new local committees with new and emerging powers to take democracy closer to communities and decentralising decision making as agreed in the Localism Action Plan
  - strengthening the role as Corporate Parents through reducing the time taken between a looked after child being accommodated and a permanency decision being made (9.7 months compared to 15 months in the previous year)
  - responding to welfare reform and tackling poverty and deprivation with relevant working groups being formed to look in detail at the issues and identify ways of reducing inequalities by providing support and advice through, for example, engagement with customers directly or through work of third party agencies, such as the Citizen's Advice Bureau.

## Statutory performance indicators (SPIs)

168. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
169. During 2013/14 Audit Scotland's Performance Audit and Best Value group carried out an evaluation of all Scottish councils' approaches to public performance reporting. In July 2015 an individual assessment was provided to The Highland Council and, in response, an action plan was agreed by the Audit & Scrutiny Committee in September 2015.
170. The action plan focused on developing the use of graphics, comparators, trend information and benchmarking to provide the reader with context within which to assess the published performance information. New style reports on corporate performance and SPIs have been developed and included within the council's public newsletter '*Highpoints*', and infographics have been developed for all national benchmark indicators. Improvements were also made to the council's web pages to make performance information more accessible to the public. Corporate performance web pages have been completed but further work is needed to populate services' performance pages.
171. A review of SPIs is about to commence in response to the new Direction issued by the Accounts Commission. Overall we concluded that the arrangements for publication were satisfactory.

## Transformational savings programme

172. In December 2014 the council agreed a Transformational Savings Programme aimed at achieving £18.3 million in efficiency savings in the four years to 2018/19. In 2015/16 the Programme delivered savings of £2.659 million (against a target of £3.660 million). Savings achieved included treasury management (£1 million), digital services (£0.275m) and the rationalisation of office accommodation in Dingwall (£0.130 million).
173. Progress in delivering the Transformational Savings Programme was reported to the Resources Committee in February 2016. Each project is assessed in terms of progress against its target and projects which are not on track to deliver the expected savings are brought to the attention of members, together with the remedial action planned to get them back on track.
174. The Programme needs to deliver £4.469 million of savings in 2016/17 in order to contain the council's net expenditure within budget. A number of risks have been identified to the delivery of the £18.3 million savings target by 31 March 2019. Efforts are being made to find alternative projects to deliver the required savings but until these are identified, there remains a risk that the overall savings target will not be achieved. The scale of savings required to be found in 2016/17 increases the risk that alternative projects will not be found.

## Procurement

175. In August 2016, the council agreed to support the creation of a shared procurement service with Aberdeen City and Aberdeenshire Councils which will build on their existing shared service. As part of this new arrangement, the council will delegate responsibility for procurement to Aberdeen City Council. The three councils combined commission goods and services worth around £1 billion and this spending power, together with the adoption of a more commercial and strategic approach to procurement, will be used to generate savings.
176. Other councils have expressed an interest in this shared service and the vision is to create a centre of expertise for procurement in the north of Scotland. Whilst focussing on procurement in the first instance, the agreed framework provides opportunities to include other shared services, with the administration of council tax and benefits currently under consideration.

## Following the public pound

177. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on Funding External Bodies and Following the Public Pound. When agreeing to transfer funds to an external body the council must be clear about its reasons for doing so. The prime purpose of involvement with external bodies should always be the achievement of the council's objectives in the most effective, efficient and economic manner.

178. Each year we consider the arrangements the council has in place in relation to the management of its arms length external organisations (ALEOs). During 2015/16, the council amalgamated two of its ALEOs (Inverness Leisure and High Life Highland) in order to deliver more integrated services and more efficient support functions. It is anticipated that this amalgamation will achieve savings of £0.250 million. We are not aware of any significant non-compliances with the Code and overall conclude that the council's arrangements for following the public pound were satisfactory during 2015/16.

## Workforce planning

179. In November 2013 the Accounts Commission and Auditor General published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations. Local follow up work was undertaken during 2015/16 to determine the extent to which audited bodies were implementing the recommendations included in the 2013 report. The findings from this work will likely be reflected in sector specific overview reports.
180. In March 2015, internal audit reviewed the council's workforce planning arrangements against the expectations set out in Audit Scotland's report and concluded that the arrangements satisfactorily addressed the report's recommendations and that workforce plans were being prepared for each council service.

181. At the time of our review, all services had an approved workforce plan in place. However, these will need to be revisited to reflect the impact of the council's voluntary redundancy scheme and to inform the project tasked with redesigning the council's services. Effective workforce planning is essential to ensuring that the council maximises the effectiveness of its employees, and that the right staff are in the right places to deliver its priorities.

#### Action plan no. 10

### National performance audit reports

182. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in Appendix III. The council has processes in place to ensure that relevant national reports are reviewed by officers. Areas where the council needs to amend its policies or procedures in response to national report recommendations are reported to members.

### Equalities

183. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

184. The council's commitment to ensure that people are treated fairly and with respect is set out in the Fairer Highland Plan 2012-17. The plan sets out the council's approach to mainstreaming equality and developing equality outcomes. Progress against this plan was published in March 2015.

185. The council's 2015 Public Performance and Attitudes survey found generally positive trends with regard to attitudes about prejudice and diversity in Highland. However, notable differences were found for some equality groups, in particular disabled people, women and certain age groups. This information was shared with services and partners to target appropriate responses.

### Auditing Best Value

186. In December 2014, the Accounts Commission concluded its review of Best Value and set out principles for a new approach to auditing Best Value. The new approach will include an assessment of aspects of Best Value as part of an integrated annual audit and a public report (Controller of Audit report to the Accounts Commission) for each council at least once in a five-year period. The report will bring together an overall picture of the council drawn from a range of audit activity.

187. The Highland Council's last Best Value audit was in 2009/10. In March 2016, the Local Area Network concluded that the council should be recommended for early Best Value activity as part of Audit Scotland's new approach. The council has not been selected for a Best Value Assurance Report in 2017/18.

# Appendix I: Significant audit risks

The table below sets out the audit risks we included in our annual audit plan and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Management assurance and audit procedures	Results and conclusions
<b>Financial statement issues and risks</b>		
<p><b>Management and supervision of the accounts preparation process:</b> a number of significant audit adjustments were made to the council's unaudited accounts in previous years. Appropriate management and supervision is required at all stages of the preparation process to ensure that the unaudited accounts comply with the Code.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>the review process will be improved and working papers will be reviewed by a senior member of staff.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>early financial statements planning meeting</li> <li>review council's process for managing and supervising the accounts preparation process</li> <li>early discussion of emerging issues.</li> </ul>	<p>There was evidence that management had reviewed the accounts document prior to submission of the accounts for audit. The presentation of the management commentary was greatly improved through the use of graphics to help explain the council's financial results. However, the number and nature of the misstatements identified by the audit process shows that the council has more to do to improve its arrangements for financial accounting and reporting (refer paragraph 11). There is also scope for the council to improve the documentation of the key judgements made in the preparation of the financial statements (refer paragraph 12).</p>

Audit Risk	Management assurance and audit procedures	Results and conclusions
<p><b>Workforce planning:</b> the council is currently seeking to significantly reduce its workforce in order to help balance its 2016/17 budget. This approach can be an effective way of reducing costs, but it may not ensure that the right people are retained in the right place. There is a risk that the council will not retain sufficiently qualified and experienced staff to ensure the continued sustainability of council services, and that the financial statements are prepared to the required quality and by the agreed timescales.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>• the Director of Finance, along with the Chief Executive have delegated authority to review staffing structures and ensure that sufficient resources are in place</li> <li>• there are no planned reductions to the number of finance staff until after the accounts have been prepared and the audit has been completed.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• review of revised staffing structures</li> <li>• early financial statements planning meeting</li> <li>• review disclosures within the financial statements</li> <li>• early discussion of emerging issues.</li> </ul>	<p>There were no changes to the accounting team that prepared the financial statements.</p>

Audit Risk	Management assurance and audit procedures	Results and conclusions
<p><b>Change to accounting requirements:</b> the 2015/16 Code includes changes due to the adoption of IFRS 13: Fair Value Measurement. Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required and the Code requires surplus assets to be measured at fair value. As with any change to the Code, there is a risk that the 2015/16 unaudited accounts will not comply with the new disclosure requirements.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>• accounting teams are aware of the changes and will ensure compliance with the 2015/16 Code.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• early financial statements planning meeting</li> <li>• review of surplus asset valuations</li> <li>• review of the revised disclosures included in the unaudited accounts</li> <li>• early discussion of emerging issues.</li> </ul>	<p>An enhanced disclosure was included within the 2015/16 accounts. One Corporate Surplus asset was not revalued in line with IFRS13. As a result, the IFRS13 disclosure note does not include this asset and so it does not agree to the Surplus Assets value disclosed in Note 28.</p>
<p><b>Management override of controls:</b> ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position reflected in the accounts.</p>	<p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• detailed testing of journal entries</li> <li>• review of accounting estimates for bias</li> <li>• evaluating significant transactions that are outside the normal course of business.</li> </ul>	<p>We found no evidence from our testing of a sample of journal entries to suggest any management override of controls.</p> <p>We found no evidence from our testing on non current assets, debtors, creditors, provisions and contingencies of bias in accounting estimates.</p> <p>Based on our 2015/16 audit work we did not find any transactions outwith the council's normal course of business.</p>



Audit Risk	Management assurance and audit procedures	Results and conclusions
<b>Wider dimension issues and risks</b>		
<p><b>Financial management and sustainability:</b> the council's 2016/17 local government grant settlement from the Scottish Government is 4.31% lower than last year and as a result of this and other additional budget pressures the council had to find savings of £39.9 million in order to balance its 2016/17 budget. As part of a range of savings and service reductions, the council agreed to offer voluntary redundancy to 341 staff (275 FTE) resulting in a net saving of £5.9 million in 2016/17. The council acknowledges that these staff reductions will result in reduced service capacity and that a fundamental redesign of what and how services will be delivered in the future is required.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>the council operates robust budget setting and budget monitoring processes</li> <li>corporate savings targets which are not directly removed from service budgets will be the subject of regular reports to the Transformational Savings Board</li> <li>the Council is meeting on 24 March to consider how re-design work should be addressed and a full action plan and timescale will be developed thereafter.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>monitor financial position through attendance at committee meetings and review of budget monitoring reports</li> <li>review the council's progress as it redesigns its services to reflect its reduced workforce</li> <li>comment in annual audit report as appropriate.</li> </ul>	<p>The council's indicative budgets for 2017/18 and 2018/19 identify funding gaps of similar level to those required in 2016/17 (refer paragraph 94).</p> <p>The council has a Transformational Savings Programme which aims to deliver savings of £18.3 million by 31 March 2019 (refer paragraphs 173 to 175)</p> <p>Work is ongoing on the council's redesign project (refer paragraphs 96 to 98).</p>

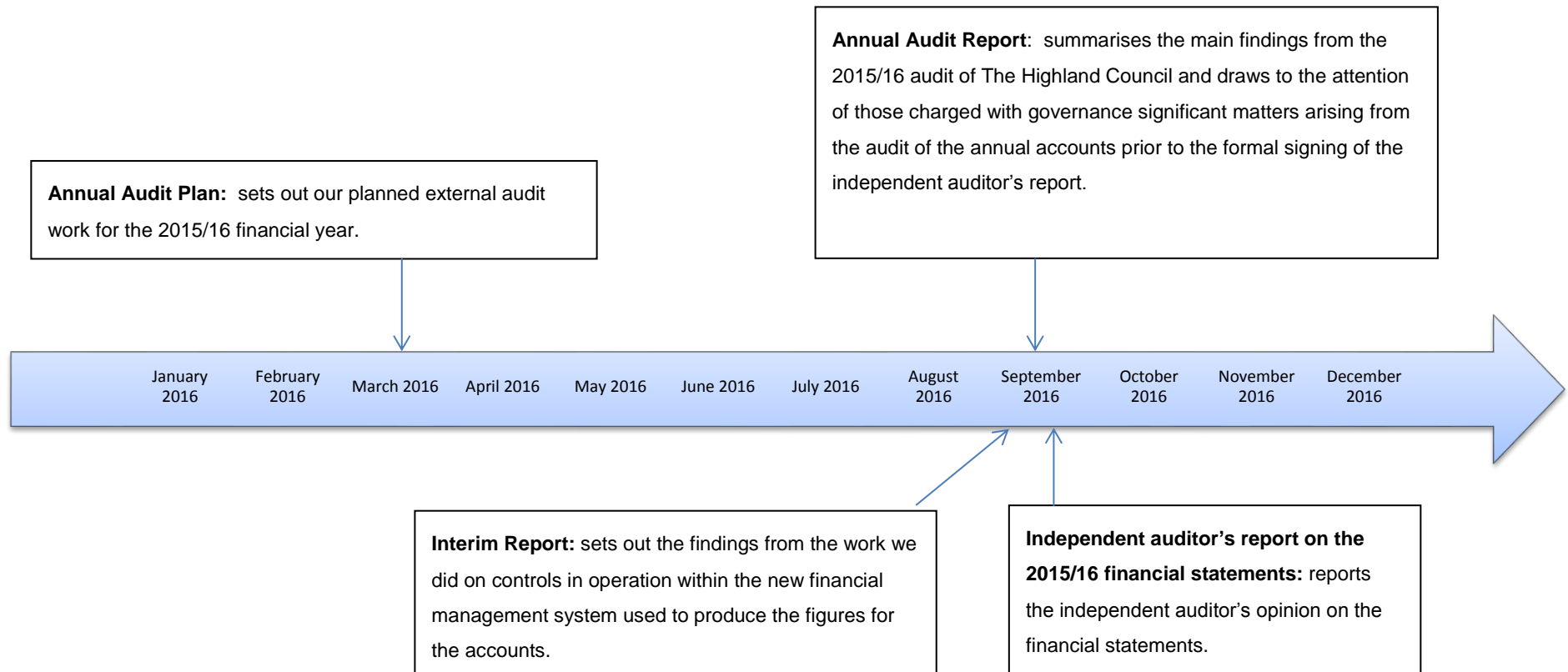
Audit Risk	Management assurance and audit procedures	Results and conclusions
<p><b>Loan to Inverness Airport Business Park Ltd:</b> the council incurred costs of £1.175 million in support of Inverness Airport Business Park Ltd in 2005 and 2006 which the company was due to repay under a loan stock instrument in 2010 and May 2015. On both occasions the company exercised its right to defer these payments and under the terms of the agreement there is uncertainty when, if ever, this loan will be repaid.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>the council is in discussion with Inverness Airport Business Park Ltd to produce a revised Development Plan that will include cash flow projections and revised estimates as to when the company expects to be able to repay the council. This will be reported to members in due course for consideration.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>monitor the outcomes of the council's discussions with Inverness Airport Business Park Ltd.</li> </ul>	<p>A report setting out Inverness Airport Business Park Ltd's repayment intentions, the extended timescale proposed for repayment and the risks to the council was considered by members of the Planning, Development and Infrastructure Committee in August 2016. The council has written the loan down to its fair value (£0.624 million) in the 2015/16 accounts.</p>

Audit Risk	Management assurance and audit procedures	Results and conclusions
<p><b>Charitable trusts:</b> the council's two charitable trusts are governed by trustees. No trustee meetings were held in 2013/14 or 2014/15 and in their absence it is not clear how trustees discharge their duty of proper stewardship of the trusts' funds. Last year we also reported that the governance costs included in both of the charitable trusts' financial statements exceeded the trigger (25% of total resources expended) set by the Office (OSCR) as indicative of a possible failure to apply funds for charitable purposes.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>both charitable trusts are umbrella organisations containing individual trusts. The governance arrangements for the individual trusts remain but are enhanced by the presentation of the unaudited and audited accounts of the umbrella organisations to all elected members in their role as trustees</li> <li>work will be carried out in 2015/16 to look at the operation of the individual trusts to ensure that the governance arrangements remain robust.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>review of the revised governance arrangements.</li> </ul>	<p>The planned review of the governance arrangements for charitable trusts is not now scheduled to be completed until October 2016.</p> <p>The 2015/16 accounts for both Trusts show that their governance costs were well within the trigger set by OSCR.</p>

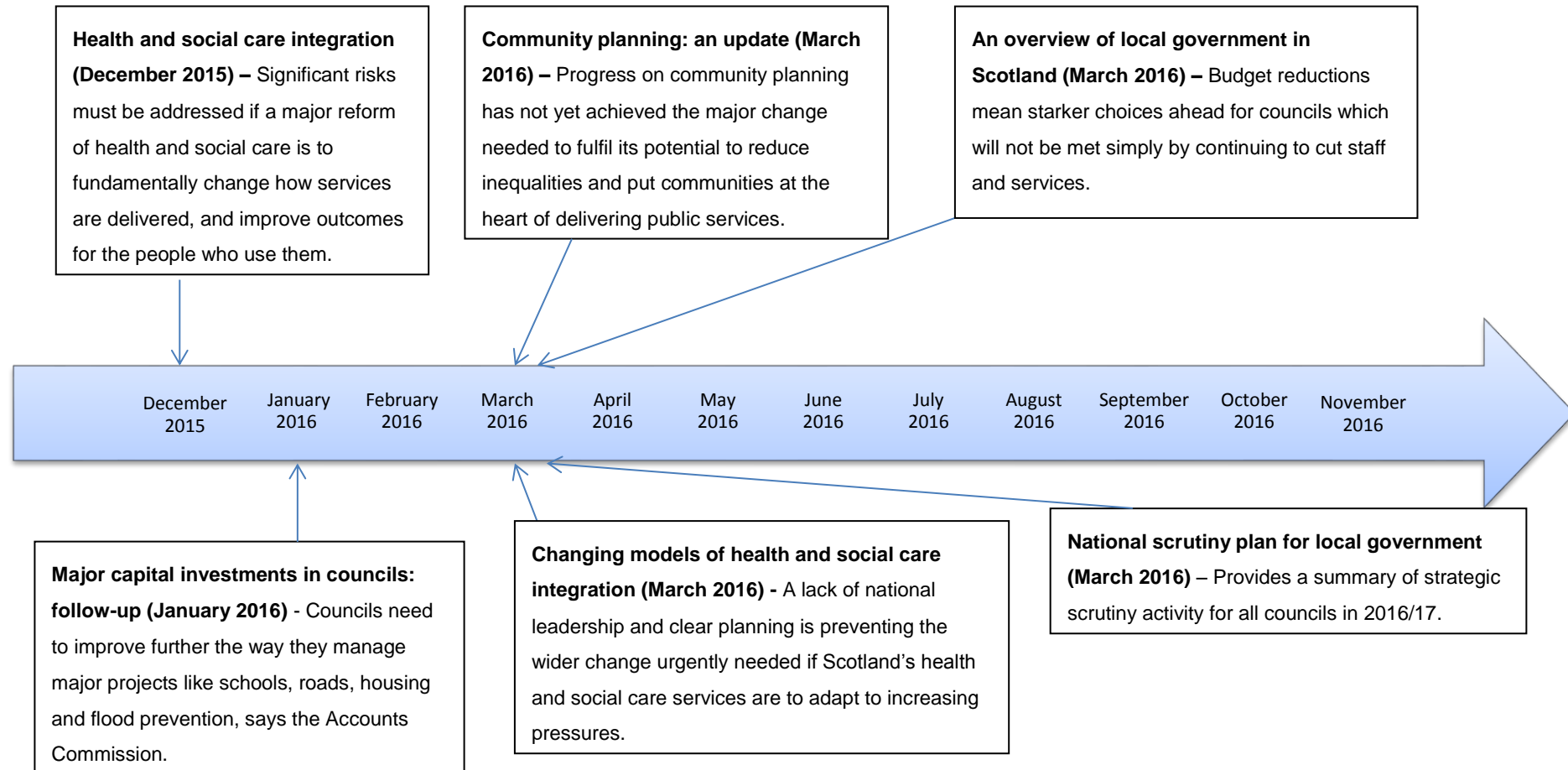
Audit Risk	Management assurance and audit procedures	Results and conclusions
<p><b>Common Good Funds:</b> the Inverness Common Good Fund (ICGF) holds a portfolio of investment properties and over the next two years will incur significant capital expenditure on repairs to the Town House's stonework and on the refurbishment of offices at 1-5 Church Street. The majority of the ICGF's stock market investment portfolio will be sold to fund this capital expenditure, reducing investments from £10 million to £3.5 million once this work is completed. It is not clear from our reading of committee minutes and council agenda papers that other options were considered by members before the decision was made to liquidate the majority of the ICGF's investment portfolio. During 2014/15 there were also three instances where the council decided to pay restitution to the Common Good Funds due to deficiencies in its administration and financial management arrangements. There is a risk that appropriate administration and financial management arrangements are not currently in place which may result in financial loss to the Common Good Funds.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>the re-establishment of Area Committees and a recent re-structure in the Finance Service allows greater scrutiny of the operation of Common Good Funds</li> <li>a review across the various Common Good Funds will be undertaken to ensure a consistent approach is taken to financial management and administration, subject to the varying scale of each Fund.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>review of the findings from the council's review of the financial management and administration of the individual Common Good Funds.</li> </ul>	<p>Area Committees have been re-established and quarterly budget monitoring reports are prepared for each common good fund for consideration by the relevant Area Committee. The Council has agreed to create a Common Good Officer post (within Finance) to support the management of the council's common good funds and prepare for the new community empowerment duties. Costs will be charged to each fund proportionate to the amount of work involved.</p>

Audit Risk	Management assurance and audit procedures	Results and conclusions
<p><b>Cyber security:</b> over the past 12 months a number of Scottish public organisations have been victims of cyber attacks and related activities. Cyber attacks can result in the loss of personal or sensitive data and/or the loss of critical systems impacting on service delivery.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>all council systems are penetration tested.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>review of the council's arrangements for preventing and detecting cyber attacks and their strategies for mitigating these risks.</li> </ul>	<p>The council is aware of the risks associated with cyber attacks and is taking action to mitigate these. Procedures have been introduced to monitor and prevent cyber security threats, and the council has achieved PSN compliance which required the council to demonstrate good practice in the operation of their overall information security arrangements. Our review of the council's arrangements for prevention of cyber attacks noted some areas for improvement (refer paragraphs )</p>
<p><b>Transport infrastructure assets:</b> the 2016/17 Code requires transport infrastructure assets to be measured at depreciated replacement cost with effect from 1 April 2016. We will review the council's preparedness for this major change in valuation, including the availability of complete and accurate management information on transport infrastructure assets, as part of our 2015/16 audit.</p>	<p><b>Management assurance</b></p> <ul style="list-style-type: none"> <li>finance staff have attended training courses and briefings and are fully aware of the new requirements in the 2016/17 Code</li> <li>there will be minimal impact on staff workload in 2015/16 as this requirement does not come into force until 2016/17.</li> </ul> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>review of council's preparations for this significant change in accounting policy.</li> </ul>	<p>The Accounting Standards issued but not yet adopted note in the 2015/16 accounts states that the Highways Network Asset will be recognised as a separate class of Property, Plant and Equipment in the council's 2016/17 financial statements. The estimated effect of this change is to increase net assets and unusable reserves by £5 billion. The council acknowledges that it will have to use estimated information for some categories of asset and so will be unable to fully implement the Code in 2016/17.</p>

# Appendix II: Summary of local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	11	<p><b>Financial accounting and reporting</b></p> <p>The number and nature of the misstatements identified through the audit process suggests that the council needs to do more to improve its arrangements for financial accounting and reporting.</p> <p><b>Risk</b></p> <p>The accounts submitted for audit are not in compliance with the Code.</p> <p><b>Recommendation</b></p> <p>The council should review its accounts preparation and management review processes to ensure that the accounts submitted for audit comply with the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	<p>The Finance team will review its accounts preparation processes to optimise the use of staff resource and learn from previous audit findings. Early engagement is planned to take place with the new external auditor to try to identify further process improvements.</p>	<p>Head of Corporate Finance 31/12/2016</p>



No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	12	<p><b>Documentation of key judgements</b></p> <p>There is scope for the council to improve the documentation of the key judgements made in the preparation of the financial statements. In particular, accounting for complex areas would benefit from more research and documentation prior to the submission of the accounts for audit.</p> <p><b>Risk</b></p> <p>There is an over reliance on the auditor to research the accounting treatment and document their opinion for management.</p> <p><b>Recommendation</b></p> <p>Key judgements should be thoroughly researched and documented prior to submission of the accounts for audit.</p>	Key judgements and how they comply with the relevant legislation will be appropriately documented.	Head of Corporate Finance 30/06/2017

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	35	<p><b>Inverness Town House</b></p> <p>The District Valuer valued the Inverness Town House at nil value as at 31 March 2016 (£ million as at 31 March 2015). The Inverness Town House is used by the council in provision of its services and so, in our opinion, this asset should be categorised as an operational building within the group accounts. We discussed with officers whether market value was the most appropriate basis for its valuation, as it could be argued that it is a specialist building and so should be valued at depreciated replacement cost.</p> <p><b>Risk</b></p> <p>The Inverness Town House is misclassified as an Investment Property and may be incorrectly valued in the Common Good Funds and group accounts.</p> <p><b>Recommendation</b></p> <p>The council should review the categorisation and valuation basis of the Inverness Town House prior to the preparation of the 2016/17 accounts.</p>	<p>The categorisation and valuation basis of the Inverness Town House will be reviewed and documented prior to the preparation of the 2016/17 accounts.</p>	<p>Principal Accountant, Accounts and Central Services</p> <p>31/03/2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.		<p><b>Good received not invoiced</b></p> <p>The unaudited accounts included £1.290 million of creditors for goods received but not invoiced at the year end. Audit testing of a sample of transactions making up this balance identified that around 65% of the value tested was not a valid creditor at the year end. These results demonstrate that council staff need more guidance and training on the proper operation of this module within the council's new financial management system.</p> <p><b>Risk</b></p> <p>The financial statements are materially misstated.</p> <p><b>Recommendation</b></p> <p>Checks should be introduced as part of the final accounts preparation process to provide assurance to the Director of Finance that the goods received not invoiced balance in the unaudited accounts is not overstated.</p>	<p>The efficacy of the purchasing module of the Finance System will be reviewed. The system user guidance will also be reviewed, updated as appropriate and reissued to users to ensure all staff are familiar with it.</p> <p>At year end the goods received not invoiced balance will be reviewed for reasonableness.</p>	<p>Head of Corporate Finance 31/12/2016</p> <p>Principal Accountant, Accounts and Central Services 30/06/2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	55	<p><b>Communication with the valuer</b></p> <p>In 2014/15 we reported that there were issues around communication between the valuer and the finance department and this continued to be the case in 2015/16.</p> <p><b>Risk</b></p> <p>The financial statements are materially misstated.</p> <p><b>Recommendation</b></p> <p>Reasonableness checks should be undertaken on all information provided by the valuer. Significant amendments to valuations should be challenged prior to inclusion in the unaudited accounts.</p>	<p>Reasonableness checks are already in place and the final version of the valuation in question was the fifth iteration of that document.</p> <p>The particular item in question was questioned by finance staff and assurance of its accuracy was provided by the valuer.</p> <p>An escalation process for finance staff to raise any issues of concern to the Head of Corporate Finance will be put in place.</p>	<p>Head of Corporate Finance 31/03/2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6.	57	<p><b>New financial management system</b></p> <p>The council implemented a new financial management system for 2015/16. There were a number of areas where standard reports that we would expect to be available had not been provided as part of the working papers package.</p> <p><b>Risk</b></p> <p>The auditor may not be able to express an opinion on debtors and creditors balances in the absence of appropriate supporting documentation.</p> <p><b>Recommendation</b></p> <p>The working papers package should include reports of all sales and purchase ledger invoices outstanding at the year end. In addition, an aged debt analysis should be provided to support the council's bad debt provision calculation.</p>	<p>Early engagement will take place with the new external auditor to ensure the appropriateness of working papers provided at year end.</p>	<p>31/12/2016</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
7.	61	<p><b>Highways assets</b></p> <p>The Accounting Code requires the inclusion of highway assets in the council balance sheets from 1 April 2016. In order to arrive at the value to be included in the accounts, the council needs to have arrangements in place to measure the relevant assets. The council has made good progress on measuring carriageways but has more to do with regard to other assets such as gullies and traffic calming.</p> <p><b>Risk</b></p> <p>The information is incomplete and due to the sums involved may lead to material errors on the accounts.</p> <p><b>Recommendation</b></p> <p>The council continues to address the relevant work to ensure that matters are addressed and keeps in touch with the national picture.</p>	<p>Work is ongoing to ensure that all assets are appropriately measured. The approach so far has focussed on measuring carriageways as these make up the vast majority of the Highways Network Asset.</p>	<p>Senior Engineer, Community Services Ongoing</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
8.	125	<p><b>Cyber attacks</b></p> <p>The council is aware of the risks associated with cyber attacks and is taking action to mitigate these. Our review identified a number of areas for improvement including advising senior officers on how to stay safe and secure in their private use of ICT to prevent that information being used to focus cyber attacks.</p> <p><b>Risk</b></p> <p>Lack of awareness of how cyber-attacks are perpetrated may result in increased exposure to these attacks</p> <p><b>Recommendation</b></p> <p>The council should review its arrangements for the identification and prevention of cyber attacks.</p>	<p>A review of the Council's corporate risk register in relation to the risk of cyber-attacks will be undertaken.</p> <p>A Security Information and Event Management system will be implemented as part of the new core ICT Contract. Technology will be backed up by support and assurance from the ICT provider's global Security Intelligence Centre (SIC).</p> <p>All staff will be reminded of the compulsory information security training and monitoring information will be provided on training take-up and completion. Also staff will be reminded of the Council's policy and guidelines in relation to use of social media and the precautions they should take to mitigate the risk of cyber-attacks.</p>	<p>Deputy Chief Executive 31/03/2017</p> <p>ICT Operations Manager 31/05/2017</p> <p>ICT Operations Manager 31/03/2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
9.	129	<p><b>Related party transactions</b></p> <p>13 of the council's 80 members did not respond to officers' requests for information on related party transactions with the council in 2015/16. This is a significant improvement from the previous year when 33 members did not respond but still represents 16% of the council's members.</p> <p><b>Risk</b></p> <p>The annual accounts disclosures are not in compliance with the Code. Elected members are not complying with the Councillors' Code of Conduct and risk damaging the council's reputation and integrity.</p> <p><b>Recommendation</b></p> <p>The council should review its procedures for identifying related parties within the annual accounts. Members should be reminded of their responsibilities as set out in the Councillors' Code of Conduct.</p>	<p>The procedures will be reviewed and Members will be reminded of their responsibilities.</p>	<p>Head of Corporate Finance 31/03/2017</p>



No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
10.	182	<p><b>Workforce planning</b></p> <p>Workforce plans need to be revisited to reflect the impact of the council's voluntary redundancy scheme.</p> <p><b>Risk</b></p> <p>Without up to date workforce plans, the council will not maximise the effectiveness of its employees, or have the right people in the right place to deliver its priorities.</p> <p><b>Recommendation</b></p> <p>Service workforce plans should be revisited to reflect the impact of the council's voluntary redundancy scheme, and to help inform its council redesign project.</p>	<p>Service Workforce Plans and Service Learning &amp; Development will be revised to reflect the impact of the council's voluntary redundancy scheme; cognisance will also be paid to the Council redesign as the project develops. Service Directors will be responsible for the development of these plans and the work will be supported by HR Business Partners.</p>	<p>Service Directors 31/03/2017</p>