

The Highland Council

Annual report on the 2010/11 audit



Prepared for Members of The Highland Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

In 2010/11 we audited the financial statements and looked at aspects of governance and performance within The Highland Council (the council). This report sets out our main findings.

We have given an unqualified opinion on the financial statements of The Highland Council for 2010/11.

The general fund recorded a net surplus for 2010/11 of £8.564 million, therefore increasing the balance to £30.834 million as at 31 March 2011. This balance includes earmarked commitments of £12.793 million and an unallocated general fund balance of £18.041 million which is above the council's target balance of £17.5 million.

The planned capital expenditure for 2010/11 was £74.194 million, but this was reduced by £11.221 million or 15% during the year, representing slippage on capital projects.

The council made 115 commitments in its corporate plan and has made good progress in delivering on these during the year reporting that 100 (87%) were either completed, progressing well, on target or performance was being maintained, four commitments had not been met and there was mixed performance on the other 11. The majority of statutory performance indicators and single outcome agreement indicators have also either been maintained or improved.

The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. The council's Corporate Improvement Programme (CIP), which aims to deliver wide-ranging, sustainable efficiencies across the council's services, delivered the planned savings for 2010/11.

The current budget proposals, which include a range of modernisation programmes and corporately led initiatives, have identified savings of £55.2 million over the period to 2012/13. The council anticipates another £4 million of savings will need to be found.

During the year the council and NHS Highland agreed a lead agency model to deliver integrated adult and children's care services. Through this new approach the council will lead on delivering children's services and NHS Highland will lead on delivering adult services. Both organisations will be jointly accountable for determining the outcomes to be achieved for service users and the resources to be committed.

On 1 October 2011 the council established a new Arms Length Company limited by guarantee, High Life Highland. The company will be responsible for the delivery of a range of services on behalf of the council including: Adult Learning, Leisure Centres, Libraries and Museums.

In May 2011 the council announced that it was terminating the procurement exercise to find a private sector operator to take over the Wick district heating system following the failure of

both the preferred and reserve bidders to meet the conditions required. The council will now re-instate a traditional domestic heating and water system to 246 households in Wick. The cost of this to the council is estimated to be £1.6 million.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. The council is currently preparing a financial strategy and savings approach covering the period to 2014/15.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of The Highland Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions on the financial statements, conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of The Highland Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit & Scrutiny Committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate.
5. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on other information published with the financial statements, as appropriate, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of The Highland Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Depute Chief Executive & Director of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Corporate governance assurance statement and group statement on the systems of internal financial control

12. In accordance with good practice the council has included an annual governance statement in the 2010/11 financial statements. There is also a group statement on the system of internal financial control. We are satisfied with the disclosures made in these statements and the adequacy of the process put in place by the council to obtain the necessary assurances. The council has recognised the need to further improve and enhance their corporate governance framework by concluding on the outstanding issues from 2010/11 which include completing a review of the Whistle Blowing Policy and launching a Leadership Development Programme. Objectives for 2011/12 have also been agreed.

Remuneration report

13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010 Code.

Accounts submission

15. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and for publication.

Prior year adjustments

16. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of government grants, revaluation of council dwellings, revaluation of assets held for sale and the inclusion of an accrual for employee benefits such as annual leave. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £575.931 million to £784.681 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

Presentational and monetary adjustments to the unaudited financial statements

17. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. The net effect of these was to reduce the total comprehensive income and expenditure by £2.757 million. There was a corresponding fall in net assets at the year end. These adjustments primarily relate to revisions to figures for revaluation of non current assets during the year and had no impact on the general fund balance of the council. A number of presentational amendments have also been made to improve the disclosures within the financial statements.

Post balance sheet events

18. The 2010/11 financial statements contain the necessary post balance sheet event disclosures for the council's new Arms Length Company limited by guarantee, High Life Highland, which became operational on 1 October 2011. The company will be responsible for the delivery of a range of services on behalf of the council including: Adult Learning, Leisure Centres, Libraries and Museums. A disclosure was also made in relation to Caithness Heat and Power Limited following a decision by the council in May 2011 to terminate the procurement exercise to identify a suitable third party to progress this initiative. Alternative heating systems will now be reinstated in all the existing properties (see also 97 to 101).
19. A disclosure was also included under the group accounts in respect of the recent announcement by the Scottish Government of its plans for legislation to create a single police and a single fire authority in Scotland. Any impact on the group accounts which include the council's share of the results of Northern Joint Police Board and the Highland and Islands Fire Board cannot yet be quantified.

Pension costs

20. The council is a member of The Highland Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £319.086 million last year to £152.616 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).
21. The actuary makes a number of assumptions in calculating pension costs. In our 2009/10 report to members we highlighted that no review of the assumptions or rates applied by the actuary is carried out to ensure the council is satisfied that these are appropriate to local circumstances. In discussions with pensions officers this year, we were advised that there are close working relationships with the actuary to ensure that local circumstances are taken into account. We also received a specific representation from the Depute Chief Executive & Director of Finance, that he is satisfied that the assumptions made by the actuary are in line with local circumstances

Pension fund accounts presentation and disclosure

22. From 2010/11 there is a requirement for a separate annual report and financial statements to be produced for pension funds. A separate annual audit report is therefore being produced for 2010/11 which covers the specific issues and risks relating to the Highland Pension Fund. A copy of this report will be taken to the Audit & Scrutiny Committee for consideration.

Whole of government accounts

23. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government (SG) prior to the deadline of 29 July and the audited return was completed by the audit deadline of 30 September.

Group financial statements

24. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies, such as police, fire and valuation boards. The Highland Council consolidates the results of two subsidiaries and four associates into the group financial statements. The overall effect of inclusion of these group entities is to reduce net worth by £182.379 million.

Trust funds

25. The Highland Council administers 80 charitable trusts. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the financial statements, supplemented with additional working papers.
26. OSCR's feedback on last year's submissions from each local authority allocated councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). The Highland Council's submission fell into the "below average" category and the council is currently reviewing arrangements to enable full compliance by 2013/14.

Common good fund

27. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund which required the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009. The council complies fully with this guidance.
28. A long term liability of £0.734 million has been included in the common good balance sheet for the costs of bringing land at Sandown (owned by Nairn common good) to a saleable condition. The repayment of this amount to the council will be dependent on achieving a successful sale of the land.
29. In December 2010 the council agreed to rescind, without penalty, the missives it signed with Deveron Homes Ltd over the development of the Sandown Lands after the company failed to get planning permission for a major housing development. As a result, the Valuer has

revalued the asset downwards from £15 million to £10 million. In the current economic climate the sale of this land is no longer certain, therefore the ability of Nairn common good to repay the outstanding liability is questionable in the short term.

Refer Action Plan 1

Outlook

Carbon Emissions

30. The UK CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) is a mandatory scheme aimed at improving energy efficiency and reducing carbon emissions in large organisations. This scheme requires the council to pay a carbon tax for every tonne of CO₂ emitted from energy use in council owned buildings. The council's emissions for 2010/11, which would have counted for the scheme, were 47,450 tonnes of CO₂ and would have amounted to a tax payment of £569,400 at the current price of £12 per tonne. 2010/11 was a base line year and the charge was not actually incurred, however, a payment will be made for emissions in 2011/12 by July 2012 and the council has made budget provision for this
31. In our report to members last year we highlighted that the council's 2009-12 Carbon Management Plan included the scope, timescales, targets and actions to be achieved over this period. In discussions with officers during 2011 we were advised that the council has achieved CO₂ savings against a 2007/08 base line of:
 - 7.2% from its buildings through a comprehensive programme of energy efficiency measures, renewable energy installations and behavioural change campaigns
 - 13% from staff business travel resulting in a saving of 1.5 million miles being claimed through expenses
 - 1.4% from internal waste generation
 - 2.5% through fleet fuel consumption since 2008/09
 - 14% from water consumption in the top 100 buildings and
 - 1.8% through the use of more energy efficient lighting equipment and dimming technology in 2010/11.
32. The council has been awarded a Carbon Trust Standard in recognition of the work to date.
33. The Highland Council Carbon Management Plan is currently being reviewed to include new targets up to 2020, in line with the Climate Change (Scotland) Act 2009. Actions are being explored to increase the rate at which emissions are cut with the aim of reducing future payments to the CRC energy efficiency scheme and reducing the council's energy and fuel bills. Investments are also being made to maximise income from renewable energy installations through feed-in tariffs and renewable heat incentives. We have been advised that a carbon assessment of the capital programme is underway to provide an understanding of the wider carbon impact of council activities.

Audit appointment for 2011/12

34. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for The Highland Council but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

35. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
36. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - the ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
37. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

38. In 2010/11, Highland Council received income of £878.5 million and spent £791.094 million on the provision of public services, resulting in an accounting surplus of £87.396 million. The budget for 2010/11 was based on Band D council tax of £1,163 and did not assume any use of the non-earmarked balances in the general fund.

Budgetary control

39. The actual outturn net service expenditure across the council was £575.168 million, an underspend of £8.780 million against the budgeted net service expenditure. Savings and efficiencies were actively pursued across the council during the year to help meet the three year budget gap of £60 million. With the exception of Other Housing and Property, all services achieved an underspend against budget in 2010/11. The overspend on Other Housing was largely due to additional spend on essential asbestos work following property surveys and a higher than expected spend on external design consultants.
40. Planning and Development achieved an underspend of £0.827million, primarily due to staff savings, short term targeted underspends on facilities maintenance and income from building warrant fees which exceeded budget. The Transport, Environment and Community outturn was a £0.894 million underspend primarily due to increased income from recyclables and harbour and berthing fees along with savings in staff costs. Both Northern Joint Police Board and Highland and Islands Fire Board achieved underspends which resulted in their requisitions being £2.001 million and £0.660 million respectively less than budget. Finally, loan charges were £3.8 million less than budgeted.

Financial position

41. The general fund increased by £8.564 million for 2010/11 made up of:
- a net service underspend of £8.780 million
 - a non-service underspend of £0.480 million
 - higher than budgeted income of £1.379 million
 - £2.036 million more earmarked balances were used than had been planned and
 - £0.039 million more was required for affordable housing commitments.
42. The general fund balance has therefore increased to £30.834 million as at 31 March 2011. This includes earmarked commitments of £12.793 million leaving an unallocated general fund balance of £18.041 million. The council aims to hold up to 3% of its revenue budget (£17.5 million) as a contingency. This has been exceeded slightly (3.1%) in 2010/11 and the contingency level is to be reviewed in 2011/12.
43. Exhibit 1 shows the balances in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2011 totalled £72.777 million, an increase of £8.306 million on the previous year.

Exhibit 1: Reserves and Funds

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	22.270	30.834
Housing Revenue Account	8.804	7.524
Repair and Renewal Fund	1.385	1.486
Capital Fund	29.562	30.026
Capital Receipts Reserve	0.996	1.229
Insurance Fund	1.454	1.678
Total	64.471	72.777

Source: Highland Council 2010/11 Statement of Accounts

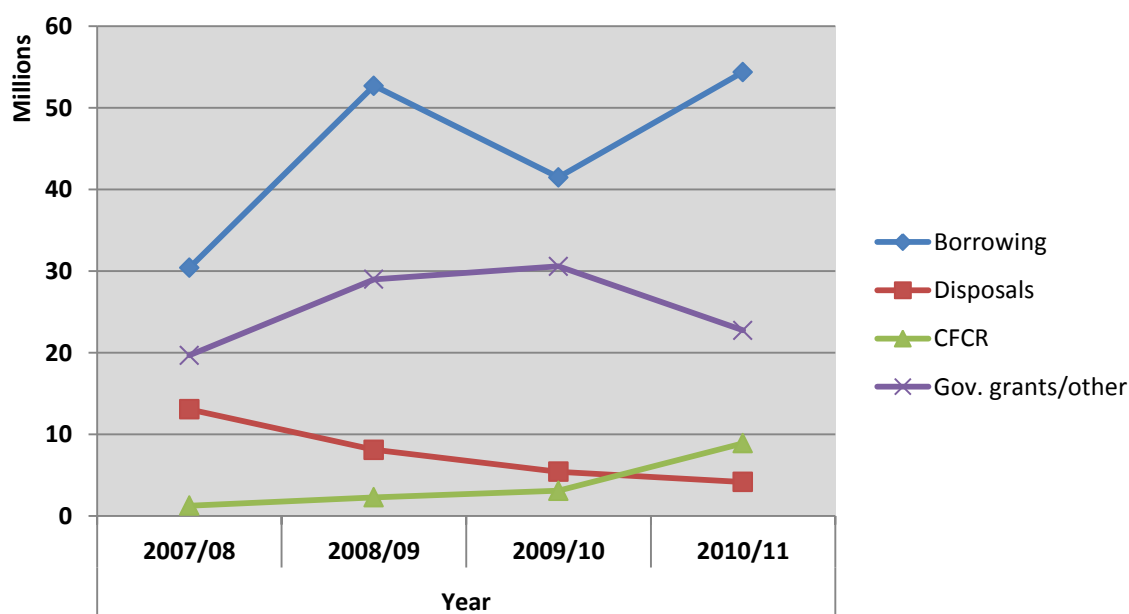
44. A suite of financial indicators has been developed for councils. The indicators assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. However they are not yet available to include with

this report, as they are based on the audited financial statements for all councils. The indicators will be issued to the council separately for consideration.

Capital investment and performance

45. The council's general service capital spend for 2010/11 was £62.973 million against a budget of £74.194 million, representing an underspend of £11.221 million (15%). The slippage occurred across a variety of projects, the most significant being schools (£4.125 million) and milestones in the ICT project (£3.868 million) - see paragraphs 136 to 141 below.
46. The housing capital programme includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish housing quality standard. Actual spend in 2010/11 was £17.678 million against a budget of £19.513 million, an underspend of £1.835 million. This was due to underspends of £2.744 million on various projects such as roofs, windows, doors, kitchens and additional energy efficiency measures. These were offset by overspend of £0.908 million on cavity loft insulation, bathrooms and new council house builds.
47. Exhibit 2 shows the sources of finance for capital expenditure in 2010/11. The council achieved capital receipts of £4.4 million (£4.7 million in 2009/10), the majority of which arose from council house sales. Long term borrowing has increased by £39.994 million to £596.014 million as at 31 March 2011 to meet the council's capital financing requirements and to take advantage of lower interest rates.

Exhibit 2: Sources of finance for capital expenditure 2007/08 - 2010/11



Source: Highland Council financial statements from 2007/08 to 2010/11

Statutory Trading Organisations

48. The council has six trading operations which operate in a commercial environment and generate income from fees and charges both to services within the council and external

organisations. The Local Government (Scotland) Act 2003 requires significant trading organisations to breakeven over a rolling three year period. All six trading operations met this statutory requirement in 2010/11.

Corporate Improvement Programme

49. The council's Corporate Improvement Programme (CIP), which was set up in the latter part of 2008, aims to deliver wide-ranging, sustainable efficiencies across the council's services for the financial years 2010/11 to 2012/13. Developments in a number of the major projects and financial savings achieved by the programme are highlighted below.

Asset management

50. In 2009/10, the council asked CIPFA to carry out a high level review of its asset management structures and processes. We reported last year that a "Target Operating Model" (TOM) had been developed to increase the pace of change in asset management and set out a challenging programme to address key areas for improvement. A Corporate Property Asset Manager was appointed in July 2011 to lead the asset management team and deliver the TOM.
51. In February 2011 a corporate property strategy was approved. This is expected to improve the performance of the council's property estate by providing a framework to align the use of property resources with the council's corporate aims and objectives and make more effective, efficient and economic use of property assets.
52. The Asset Management Project Board is chaired by the Director of Housing and Property Services and is responsible for overseeing the delivery of the corporate property strategy. The council is now in the process of procuring a corporate property asset management system.

Procurement

53. In July 2009 the Accounts Commission and Auditor General for Scotland published a joint report, *Improving public sector purchasing*, which examined the progress and impact of the Public Procurement Reform Programme. The report established that there was potential for the public sector to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. It also highlighted the need for greater assurance on the quality of purchasing practice in public bodies. During the year, we undertook an assessment of the council's procurement arrangements, to establish how well it is doing in ensuring it can demonstrate value for money when purchasing goods and services.
54. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. To date two rounds of PCA assessment have been completed. In 2010 the council scored 44% which is classed as 'conformance' and demonstrates an improvement on the 2009 score of 35%. However, the

council's ranking amongst local authorities fell from four to seven indicating that other local authorities are improving their capability more rapidly.

55. A procurement strategy review was carried out in 2010 and a new procurement strategy for 2011-15 was approved in August 2010. The strategy includes an operational plan for issues identified during the 2009 PCA. The operational plan contains clear actions which are directly aligned to the gaps shown by the PCA. The results and improvement actions resulting from the 2010 PCA were discussed by senior management in the spring and summer of 2011 but these have not yet been incorporated in the improvement plan.
56. Overall, we concluded that the council is making good progress in improving its procurement responsibilities and that the operational plan is expected to deliver further improvements and address risk area over the next few years.

Business support

57. The business support functions (finance, admin, human resources etc.), previously situated in each service, are being reorganised under a new Business Support service. In April 2011, a Head of Business Support was appointed and the second tier management structure was approved in July. It is expected that staff will shortly be matched to the posts in the new service.
58. The implementation of the Integrated Human Resources and Payroll system has proved to be problematic, partly due to the need to redesign the system to provide both payroll and human resource services. A new project to develop the system began in 2008 and it is now expected to be on-line in 2012.

Customer Engagement & Assessment

59. Significant progress has been made with this CIP project with the implementation of the Lagan Customer Relationship Management system, the first point of contact for customers and suppliers. This project is also responsible for the implementation of a secure card payment solution.
60. In June 2011 the council achieved the Customer Services Excellence award, an external cabinet award, in recognition of its commitment to customer service delivery in the service point network, telephony service centre and registration services. This also recognised the work undertaken with public service partners to combine and streamline points of contact for customers.
61. The council's new web strategy was approved in August 2010. The vision described in the strategy is to use web technology to improve service delivery, making services more accessible, convenient, efficient and cost-effective. The strategy outlines a number of areas for development relating to the governance and use of the web, the introduction of new technology and expansion of existing facilities.
62. In February 2011, the Society for Information Technology Management (SOCITM) published *Better Connected: a snapshot of all local authority websites*. The council achieved the lowest

score, one star, indicating significant room for improvement particularly for users wishing to make transactions. The usability of the site, however, was rated as reasonable.

Refer Action Plan 2

Efficiency savings

63. The CIP is overseen by a board which meets monthly and received details of both target and achieved savings. Exhibit 3 shows the expected and actual savings for 2010/11:

Exhibit 3 - CIP target and actual savings 2010/11

Project	Targets £m	Actual Savings £m
Asset Management	0.120	0.120
Business Support (incorporating Business Support, Customer E&A, HR Admin and Information Management)	0.738	0.738
Income Generation	1.238	1.238
Mobile & Flexible Working	0.000	0.000
Procurement	3.190	3.190
Transport	0.829	0.829
Total	6.115	6.115

Source: Paper provided to September 2011 CIP Board

Financial planning to support priority setting and cost reductions

64. The council has been proactive in preparing budget proposals and identifying savings to reflect the reduced local government settlements and has budget proposals to help prepare for the unprecedented financial pressures whilst also meeting service delivery expectations.
65. In 2010 the council had identified a three year funding gap of £60 million to 2012/13. At that point, the council had already agreed savings of £24 million and undertook a wide ranging consultation process during 2010/11 to seek the views of stakeholders on the future revenue budget options. This exercise sought to identify further savings of £36 million while continuing to deliver services. The information has been used in identifying and prioritising revenue budget decisions.
66. The current budget proposals, which include a range of modernisation programmes and corporately led initiatives, have identified savings of £55.2 million over the period to 2012/13. The council anticipates another £4 million of savings will need to be found.

Workforce reduction

- 67. Part of the budget savings above includes a reduction of 762 whole time equivalent posts over the three year period, 2010 to 2013. The council anticipates that the majority of the post reductions will be made through vacancy management and staff turnover.
- 68. As at 31 March 2011, 18 of the posts had been removed at a cost of £0.425 million. Of this £0.143 million was payable to the Highland Council Pension Fund in respect of strain on the pension fund due to the early release of pension benefits. Savings associated with reductions in staff numbers are reported to the Audit & Scrutiny Committee each year and the savings associated with the reduced posts this year were calculated to be £1.861 million, giving a net saving of £1.436 million.
- 69. The council has earmarked £3 million to meet the costs associated with reducing staff numbers over the next 2 years. From 1 April 2011 to 30 September 2011 a further 51 employees left the council on the grounds of redundancy resulting in a net saving of £8.451million.

Use of consultants, agency staff and overtime

- 70. In times of reducing staff numbers in councils, there is a risk that consultancy and agency staff increase to maintain service delivery.
- 71. Consultancy costs at the council have decreased slightly from £5.445 million in 2008/09 to £5.036 million in 2010/11. These costs include payments to consultants employed on capital projects. Payments to agency workers also decreased from £2.063 million in 2008/09 to £1.971 million in 2010/11, however, overtime costs increased over this period from £6.686 million to £7.974 million. We also noted that both agency and overtime costs had been higher in 2009/10. These are clearly areas subject to significant variations.
- 72. These costs have been offset by underspends in staffing budgets of approximately £6 million over the last three years. However, the staff budget for 2011/12 is £7.932 million less than 2010/11, reflecting the reduction in staff numbers and there will therefore be less flexibility to meet consultancy, agency and overtime costs. As changes to staffing numbers take effect it will be important to closely monitor these additional costs to ensure they do not escalate.

Refer Action Plan No. 3

Partnership working

- 73. The Highland Public Services Partnership was reformed in 2008, replacing the former Wellbeing Alliance and the council and its partners promote a strong ethos and commitment for working together for the benefit of the Highland area. Community planning structures are well developed at strategic, thematic and local levels with appropriate political, official and community representation on each. The single outcome agreement (SOA) is regarded as the improvement plan for public services in Highland and is supported by all partners. The partnership has 181 performance indicators in place across the Scottish Government's 15 national outcomes (see paragraph 124).

74. The council is actively examining the scope for shared service provision with public sector partners and has a shared services project as part of its Corporate Improvement Programme which has identified a number of opportunities and a business case to take these forward is currently being developed for committee approval at the end of 2011.
75. During the year the council and NHS Highland agreed a lead agency model to deliver integrated adult and children's care services. Through this new approach the council will lead on delivering children's services and NHS Highland will lead on delivering adult services. Both organisations will be jointly accountable for determining the outcomes to be achieved for service users and the resources to be committed (see also paragraph 132).
76. The Business Gateway operates on a shared services model in Highland and Moray with Highland Opportunity Ltd (an arms length council company) delivering the service on behalf of both authorities. Investigatory discussions have also taken place with The Moray Council about sharing IT infrastructure suitable for revenues and benefits.
77. The council and Northern Constabulary have developed a shared approach to customer contact with the co-location of service points and police stations in a number of rural communities. This has delivered efficiencies and sustained service delivery in some remote communities.

Outlook

2011/12 budget

78. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.
79. When setting the 2011/12 budget the council identified a potential funding gap of £22.766 million. Budget reduction measures were identified across service department and included specific service programmes and corporate savings activities.
80. A balanced budget incorporating budget reductions of £22.766 million, allocated across service departments, was approved in February 2011.

2011/12 budget reporting

81. The budget monitoring report to 31 August 2011 forecasts an overspend of £0.776 million to 31 March 2012. The largest overspends are projected in social work (£1.433 million), joint children's committee (£0.670 million) and education, culture and sport (£0.435 million). The only significant underspend is a projected saving of £2 million on loan charges.

Financial forecasts beyond 2011/12

82. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in

the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. The council is currently preparing a financial strategy and savings approach covering the period to 2014/15 with the focus on a balanced budget while maintaining service delivery. Continuing to deliver public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 4

Governance and accountability

83. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
84. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
85. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
86. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

87. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The committees within the council are generally well attended by members and service department officers who respond to queries.
88. There are currently six strategic committees within the council, namely:
 - Housing & Social Work
 - Education, Culture and Sport
 - Planning, Environment and Development
 - Transport, Environmental and Community Services
 - Resources and
 - Gaelic.
89. In addition to these there is an Audit and Scrutiny Committee, the Inverness City Committee, a Joint Committee for Children and Young People and a significant number of sub committees and working groups. In December 2010 the council agreed to review the current committee structure to take account of changes taking place over the next two years including the

integration of health and social care services as well as delivering on its commitment to modernise services to deliver annual efficiency savings.

90. The Governance Review Group has identified a number of options to revise the committee structures. Although a number of short life working groups have subsequently been deleted from the structure, the review is still at an early stage and no final decisions on committee structures have been made.
91. During 2011 the role of the Audit & Scrutiny Committee (ASC) was due to be reviewed. Planned areas of review were the effectiveness of the committee and the training needs of members. Consideration of the cost effectiveness of the committee may be a relevant element of the review. Following the resignation of the chair to take up a seat in the Scottish Parliament, the ASC review has been delayed but is expected to be carried out during 2011/12.

Internal control

92. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
93. As part of our work, we took assurance from key controls within the council's financial systems, with the controls of eight key systems having been tested by us and four by internal audit. The results of our review of key controls were reported to the Audit & Scrutiny Committee in September 2011. Areas where key control improvements could be made were discussed with officers and have either already been implemented or will be implemented in due course.
94. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

ICT data handling and security

95. The council is in the process of establishing a sound information management environment through the implementation of policies, guidance, standards and training including the adoption of an information management strategy and establishing an information management architecture to determine where data will be stored.
96. In our 2008/09 report Information Handling and Security (cultural aspects) we highlighted the significant challenges presented to the council regarding secure handling of data and information. In our 2010/11 review we revisited this area and found a lot of work has been done to strengthen the information security environment. Senior management has given clear support for information security and awareness raising newsletters have been issued. There are, however, still areas where the council is exposed to risks. This is largely due to the fact

that the information management and security projects are still very much in progress. An action plan to address the risks identified has been agreed with management

Caithness Heat and Power

97. In our report on the 2008/09 audit we highlighted that a range of governance, financial and technical problems had been experienced in relation to a district heating project initiated by the council and progressed by Caithness Heat and Power (CHaP), a company established by the council to deliver the project. In June 2010 the controller of audit reported to the Accounts Commission on 'the serious and wide ranging deficiencies in the council's dealings with CHaP and to highlight matters for councils to consider in future when approving projects of this nature'. Having considered the report, the Commission directed the controller of audit to carry out further investigations and a further report was presented to the Commission in February 2011.
98. In the second report the controller of audit reported that, in particular, the former chief executive and the director of finance should each have done more to ensure effective governance of the Caithness Heat and Power project in the period from its early years through to the time of reports to the council in October 2006 and April 2007. This was particularly the case given the innovative nature of the project and the accompanying risks. The former chief executive was made aware of concerns but did not take sufficient action to ensure that these were effectively addressed. The director of finance should have pursued more vigorously the concerns that he had raised with the former chief executive. In these particular respects, the Commission found that the performances of the former chief executive and the director of finance did not fulfil the responsibilities placed on them.
99. The Commission recognised that, since deciding in August 2008 to take ownership of the company, the council has been addressing the difficulties in governance and financial stewardship and had taken action designed to avoid a similar position developing again.
100. In May 2011 the council announced that it was terminating the procurement exercise to find a private sector operator to take over the district heating system following the failure of both the preferred and reserve bidders to meet the conditions required. The council will now re-instate a traditional domestic heating and water system to 246 households in Wick.
101. The overall cost of re-instatement has not yet been fully finalised, however, £1.6 million has been budgeted towards meeting this liability. In addition, the council has made provision for the long term loan to CHaP of £4.97 million and the potential repayment of an Energy Savings Trust Grant of £2.8 million. A further £600,000 has also been earmarked for running costs for the company in the short term.

Prevention and detection of fraud and irregularities

102. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

103. The Highland Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

National Fraud Initiative in Scotland

104. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. The council is making slow progress in reviewing the NFI reports and taking appropriate action. At the end of September 2011, 3639 matches had been identified but only 565 of these had been reviewed by the council. Of these, 25 were suspected frauds and six are currently under investigation, however no overpayments have as yet been identified.

Refer Action Plan No 5

Housing benefit inspections

105. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the council in June 2008 and a follow up review was done in May 2010. The follow up report which was issued in August 2010 recognised the improvements the council had made since the 2008 assessment. In particular there was a significant improvement in the time taken to process claims. The main risk highlighted in the 2010 review related to the recovery of benefit overpayments and the way in which those overpayments were being recorded. The council has since taken steps to improve its procedures and we have been advised that the overpayment recovery rate is improving.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

106. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have 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.
107. The Bribery Act 2010 became effective on 1st July 2011. Section 7 of the Act introduces an offence by “commercial organisations” if they fail to prevent bribery. Councils fall under the definition of commercial organisations and Highland Council has carried out a risk assessment to determine whether additional procedures are required to comply with this Act and a report to the Audit & Scrutiny Committee in September set out the actions required. These are expected to be completed by June 2012.

Best Value, use of resources and performance

108. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure best value.
109. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing best value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
110. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
111. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
112. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
113. This section includes a commentary on the best value/performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

114. During 2009/10 The Highland Council was one of five 'pathfinder' sites for the Best Value 2 audits. The BV2 review concluded that the council is demonstrating that it is improving well and is well placed to deliver future improvements. Areas of strength and good practice were highlighted in terms of effective partnership working and community engagement and an improvement plan to address areas for improvement was agreed by the council in June 2010.
115. The improvement plan contains 92 action points and these are monitored through the council's quarterly performance review process (see paragraph 123). We have been advised

that, as at October 2011, 36 of the action points had been completed, 31 were on target and 24 were reporting minor slippage. Only one action (personal development plans recorded on the Integrated Payroll and HR system - see also paragraph 58) has not made any significant progress but is expected to be on-line in 2012.

Self-evaluation arrangements

116. As part of the BV2 submission to Audit Scotland the council used the Public Sector Improvement Framework (PSIF) to complete a self-evaluation of its performance at the corporate level. This framework has now been adopted as the council's self-evaluation approach. It was piloted in Housing & Property Services during 2010 and a roll out programme to all other services, covering the period to 2013, is in place.
117. The council will also continue to use professional evaluation frameworks such as Validated Self Evaluation (VSE) in education services, mapping these across to PSIF requirements and filling in any gaps identified.

Community/user engagement

118. The council demonstrates effective community engagement through its ward structures and various special interest forums. Along with its community planning partners it has adopted the national standards for community engagement and remain consistently strong in this area.
119. The council works with local communities in a number of ways. As well as ward forums there are special interest forums such as those for community care users and carers, the environment, local access, the economy and young people. In early 2010, the council added to its range of engagement approaches by setting up a citizens' panel of 2,300 adults.
120. Citizens' Panels are made up of a representative sample of residents drawn randomly from the local population who have agreed to participate in consultation activity. Individuals are asked to complete postal, on-line or telephone surveys on an on-going basis over a few years. This approach replaces the previous practice of surveying 11,000 households annually.
121. To further enhance engagement and to contribute to the difficult budgetary decisions that will have to be made within the current financial climate the council encouraged the public to put forward suggestions and comments on services and savings through an internet blog in 2010. The suggestions and comments received were used to inform budget decisions. In addition, focus groups to seek the views of harder to reach people were also used.
122. As part of the council's public performance survey, community views on how well the council listens to local people are sought. In 2010/11 there was a significant increase in this measure with a net score of 11 being achieved against a score of -1 in the previous year and a baseline score of -2 in 2006/07. The survey also found that 85% of respondents were satisfied with council services and 93% find it easy to contact the council.

Overview of performance in 2010/11

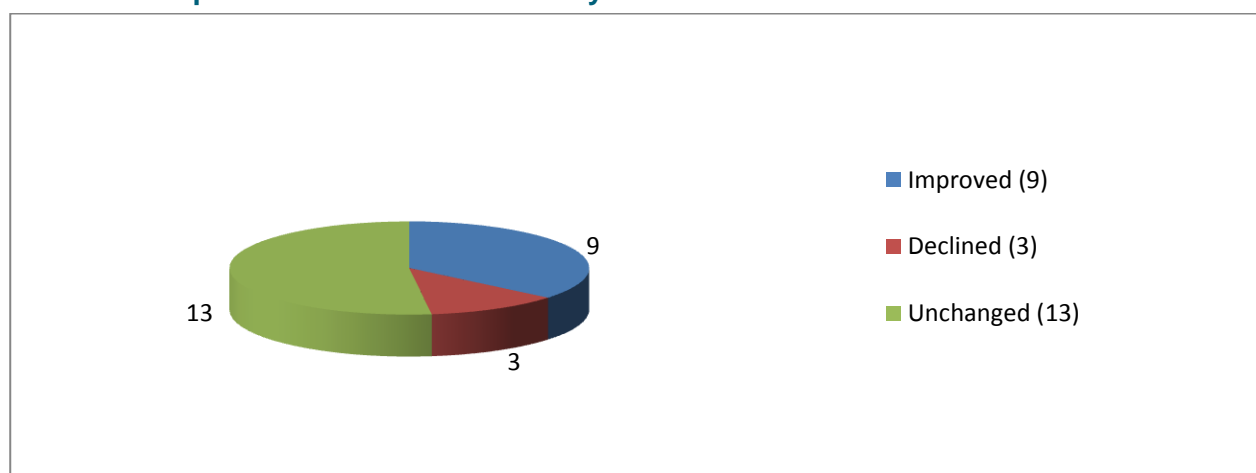
Performance management

- 123.** The council's performance management framework is sound and is integrated with service planning and delivery. A comprehensive and robust approach to reporting service performance is in place through the Quarterly Performance Reviews (QPR) which hold directors and services to account. The framework was further developed in 2010 with the introduction of the electronic Performance and Risk Management system (PRMS) for recording and reporting performance through the QPRs. The PRMS also records risk at strategic, service and operational levels and, once fully operational, will be the council's electronic risk register.
- 124.** The council has made 115 commitments in its corporate plan which are now monitored through the PRMS. An annual performance report is published showing the council's progress in delivering on these commitments. The 2011 report showed that 100 (87%) were either completed, progressing well, on target or performance was being maintained. Of the remaining 15, four commitments had not been met and there was mixed performance on the other 11 with positive and negative movements being identified in the indicators measuring these commitments. In addition, the SOA performance report for 2010/11 shows that, where data is available (147 out of the 181 indicators used), 89% of community planning performance indicators have improved, been maintain or completed. The full reports for both the corporate plan and the SOA are available on the council's website. Overall the council is making good progress in delivering on its commitments.

Statutory performance indicators

- 125.** The council's Statutory Performance Indicators (SPI) are published on its website and incorporated in the Statement of Accounts. In addition to the 25 specified SPIs for 2010/11 the council is also required to publish local indicators which:
- demonstrate the council is securing best value
 - assist stakeholders and other interested parties to compare performance both over time and between councils as appropriate.
- 126.** The council has identified 54 cost based local indicators, seven more than in 2009/10, covering a wide range of activities including the average cost per kilowatt hour of fuel, management and maintenance costs per council house per annum and the cost of museums per visit/usage. Both local indicators and SPIs are included in the PRMS.
- 127.** As shown in exhibit 4 below, the majority of the 2010/11 SPIs have either been maintained or improved. The three indicators that declined relate to planning applications processing times, noise complaints and managing tenancy chances.

Exhibit 4: Improvements demonstrated by SPIs



Source: Highland Council SPI data returns

128. An Audit Scotland report *Modernising the planning system* issued in September 2011 highlighted that few councils are performing well against timescales set for processing planning applications. The 2010/11 SPI indicates that Highland Council has been unable to reverse this trend with 143 fewer applications being processed than in the previous year and the percentage of these dealt with within 2 months was 55.6% compared with 60% for 2009/10. This also falls short of the council's target of 80% of applications being dealt with within two months. We noted that the first quarter of 2011/12 showed an improvement in the processing of applications with 61% having been completed within two months.
129. Each year we review the work carried out by Internal Audit on SPIs and we have taken assurance from this work again in 2010/11. Internal audit will report their findings in due course, however we would draw attention to a key aspect - reliability of the council's arrangements for preparing SPIs. Officers had specifically requested internal audit look at two indicators this year (sickness absence and equalities) as the council's own monitoring procedures had picked up on errors with these indicators in previous years. This is commendable. However, internal audit found errors in both of these indicators this year that had not been picked up by the council's internal checking process.

Refer Action Plan No 6

National performance reports

130. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. These national reports are considered at the relevant service committee and any actions required are agreed at that point. The ASC fulfils a scrutiny role in ensuring the services deliver on any improvement actions arising. Reports in the last year of direct interest are detailed in Exhibit 5.

Exhibit 5: A selection of National performance reports 2010/11

- | | |
|--|--|
| <ul style="list-style-type: none">• The cost of public sector pensions in Scotland• How councils work: an improvement series for councillors and officers - Arms-length external organisations• Scotland's public finances: addressing the challenges• Maintaining Scotland's roads: a follow-up report• Getting it right for young people in residential care• Modernising the planning system | <ul style="list-style-type: none">• Physical recreation services in local government• How council work: roles - working relationships - are you getting it right?• Community Health Partnerships• Improving energy efficiency: a follow-up report• Transport for health and social care• An overview of local government in Scotland 2010 |
|--|--|

Source: www.audit-scotland.gov.uk

Scotland's public finances: addressing the challenges

131. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include:

- Budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

132. The report highlighted that the council and NHS Highland plan to integrate their adult and children's care services through a lead agency model. The single lead agency arrangements will result in both organisations being jointly accountable for determining the outcomes to be achieved for service users and the resources to be committed. However, the lead agency will assume responsibility for all aspects of delivery, strategy, internal governance, operational delivery or commissioning of services and be fully accountable for the delivery of the agreed outcomes. The council will lead on delivering children's services and NHS Highland will lead on delivering adult services. The plan is expected to be implemented in April 2012. This approach was also referred to in our *Community Health Partnership* report.
133. Reference was also made to the outsourcing of the council's IT services to the private sector. The contract is expected to generate savings of £1.3 million in 2011/12 and an estimated total saving of £6.8 million over the five-year contract. However, at the moment there are significant issues with the delivery of the programme of transformation which is instrumental in delivering these savings. (See also paragraph 136 to 141 in this report).

How councils work: roles - relationships - are you getting it right?

134. Clarity about governance arrangements, people's roles and responsibilities and good working relationships are central to the success of any organisation. Getting it right in councils has a significant bearing on how well they perform in delivering vital services for local people and communities, and in making sure public money is used wisely. Working together, councillors and officers lead and manage their councils to provide services that improve the lives of local people. Trust, confidence and good conduct between councillors, and between councillors and officers, are essential for building and maintaining good relationships, and supporting good leadership, management and performance
135. The report included a number of key points for action to strengthen working practices and working relationships. The report was discussed at the full council meeting of October 2010 and further actions were agreed in relation to training and development and reviewing governance documents to ensure that strong corporate governance was sustained.

Information technology

136. In 2010, the council entered into a new 5-year contract with Fujitsu Services for the provision of Information and Communications Technology (ICT) services and from the beginning of April 2010 core services (desktop management, infrastructure management, service desk, data networking and applications management) have generally been satisfactorily delivered.
137. Delivery of the second element of the new contract (Transformation) has, however, been problematic. The Transformation programme consists of seven projects, which are complex in nature with many interdependencies and currently include:
- Data centre - the relocation of the majority of servers from council headquarters in Inverness to Fujitsu's bespoke secure data centre in Stevenage and London and provision of disaster recovery to enable the council to continue providing its core services should the primary site in Stevenage be unavailable.

- Managed print service - replacement of all printer/copier equipment with new multifunctional equipment under a centrally managed contract.
 - ICT Rollout/telephony - replacement of existing equipment with up-to-date technology across the corporate and curriculum sites.
 - Workplace - linked to the rollout project and covers the software available to users on their computer workstations.
 - Customer relationship management - implementation of the Lagan Customer Relationship Management system. This project was successfully completed in March 2011.
 - Discovery - linked to the rollout project and dealt with identifying all computing assets - both corporate and curriculum - so that they can be replaced and managed appropriately. This project was completed early 2011.
 - Service transformation - supported the introduction of 18 new service level performance measures. The corporate measures were completed by October 2010 and curriculum measures by April 2011.
138. The first report on the progress of the transformation programme, covered the period from April to July 2010. The overall status of the report was 'Amber' indicating that there were issues and/or a likelihood that milestone dates, budget or quality targets would not be met. Concerns were raised about the resources Fujitsu had committed to the programme and it was decided that regular weekly updates on performance should be submitted to senior council staff and members of the resources committee. In addition, a senior representative from Fujitsu attended the full council meeting on 28 October 2010 and has also attended a number of resource committee meetings.
139. Despite three of the projects within the programme having been completed since the first progress report, the overall status of the programme has remained 'Amber'. On 5 October 2011, however, the progress report to the end of August assessed the overall programme status as 'Red', indicating that there are significant issues and that targets were not going to be met.
140. In addition, user satisfaction has suffered due to problems with corporate email systems, ICT refresh in schools and availability of two systems during and shortly after their move to the data centre.
141. From the moment it became clear that there were going to be delays, the council has been highly proactive in seeking resolutions to the problems. Weekly meetings continue to be held with Fujitsu and members to keep up-to-date with progress. Where appropriate, legal advice has been sought to clarify the options open to the council. Fujitsu representatives have attended resources committee meetings as well as full council meetings to provide additional assurance about the company's commitment to the contract. Additional resources were put in by the company to meet the deadlines of the contract while at the same time payments for the transformation projects were put on hold because the milestones were not met. This

continues to be a challenging position and risks remain around the satisfactory delivery of the transformation project.

Refer Action Plan 7

Progress against audit risks identified in the Shared Risk Assessment

142. The results of an updated shared risk assessment (SRA) performed by the Local Area Network (LAN), were reported in the April 2011, Assurance and Improvement Plan (AIP) update 2011-14. No significant scrutiny risks were reported by the LAN and overall risk assessments were the same as in 2010, however there were aspects in some service/outcome areas where elements of uncertainty had been identified. The following paragraphs give an updated position statement for each of the areas of uncertainty identified by the LAN. The up-to-date position will be considered by the LAN as part of its update of the AIP in 2011/12.

Healthier Highlands

- 143.** The Care Inspectorate carried out an initial scrutiny level assessment (ISLA) of the council's social work service during the year which considered risk at both strategic and service level and this led to a scrutiny inspection, which was completed in May 2011.
- 144.** A report on the inspection was published in October 2011, and noted positive outcomes in a range of areas including: effective management and support of staff, effective risk assessment and risk management and significant improvement in the quality of partnership working. The report also noted, however, the challenges associated with the current planning for integration of health and social care services.
- 145.** Further progress requires to be made in some areas such as self-evaluation and older people and mental health services and the council is currently developing an action plan to address the recommendations made in the report.

Education, Culture & Sport (ECS)

146. The AIP highlighted that overall there are no significant scrutiny risks for this service. However there was a mixed picture in the inspections of learning communities carried out by HMIE from August 2008 until September 2010. The main points for improvement related to improving the quality of partnership working and HMIE and the council agreed to undertake joint working during 2011 to identify improvement actions in this specific area. This work is currently on-going and HMIE have requested that the council provide a report on the actions to be taken by the end of this calendar year.

Housing & Property Services

147. In August 2010, the council provided the Scottish Housing Regulator (SHR) with a presentation on service delivery performance. SHR met with the council in quarter four to follow-up on the initial discussions on service delivery. Follow up work on the previous year's

discussions began in early October 2011 and will be more focused in some service delivery areas including compliance with the SHQS and 2012 homeless requirements. The field work for this has been carried out and the results will be reported by SHR in due course.

Financial position

148. Our AIP update stated that no scrutiny risks were identified with the council's financial management processes. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. However, in the context of the lean financial position and the level of savings to be delivered by all councils, we considered that it would be difficult for the council to maintain its financial position and this was and continues to be an area of uncertainty for us (see paragraph 150).

Outlook

149. The LAN will reflect the council's most recent performance information in the next update of the AIP, which will be reported as part of our 2011-12 annual audit.

150. As highlighted in paragraph 82 there are likely to be significant budget reductions in the public sector for the next two years. Continuing to deliver its corporate objectives regarding public services with a reducing budget will be a significant challenge for the council. The financial position will continue to be monitored through the annual audit process.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	28 February 2011	7 April 2011
Review of adequacy of internal audit	15 March 2011	7 April 2011
Shared Risk Assessment / Assurance and Improvement Plan	25 March 2011	7 April 2011
Review of IFRS shadow financial statements	29 March 2011	22 September 2011
Information Handling and Security (cultural aspects)	25 May 2011	22 September 2011
Review of internal controls	28 June 2011	22 September 2011
Improving public sector purchasing follow-up	23 August 2011	22 September 2011
Report to those charged with governance on the 2010/11 audit	21 September 2011	22 September 2011
Audit opinion on the 2010/11 financial statements	28 September 2011	22 September 2011

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	29	<p>Common good fund</p> <p>The long term liability included in the common good balance sheet is for costs to bringing land at Sandown to a saleable condition. The repayment of this amount to the council will be dependent on achieving a successful sale of the land which, in the current economic climate is uncertain. In addition, the land was subject to a significant downward revaluation in 2010/11.</p> <p><i>Risk - Nairn common good may be unable to repay the council for work done on Sandown Lands and the land itself may be subject to future downward revaluations if a sale is not achieved.</i></p>	<p>The value of the land, whilst reducing, is still significantly above the outstanding liability to the council and therefore there is little risk of a default on the liability. We will, however, continue to monitor the situation.</p>	Head of Accounting & Budgeting	Annually at financial year end

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	62	<p>Web technology</p> <p>The council aims to improve service delivery through the use of web technology. However, in a recent SOCITM report, the council's website achieved the lowest score of one star.</p> <p>Risk - The new web strategy will not deliver the expected improvements to service delivery.</p>	<p>The website as it currently stands provides a good source of information for members of the public. The web strategy is being implemented to improve service delivery through the website.</p>	Assistant Chief Executive	June 2012
3	72	<p>Workforce costs</p> <p>Consultancy, agency staff and overtime costs are subject to variation and, in times of reducing staff numbers these may increase to maintain service delivery</p> <p>Risk - Consultancy, agency and overtime costs may become excessive and negate any savings from reducing staff numbers.</p>	<p>The monthly budget monitoring process identifies all areas of variance across the council's budget which are consequently highlighted for management action to bring the budget back in to line.</p>	Head of Accounting & Budgeting	Monthly
4	82	<p>Financial pressures</p> <p>Finance settlements are reducing presenting a challenge to the council in delivering key services.</p> <p>Risk - The council may be unable to delivery key public services.</p>	<p>The council has a robust budget setting process to ensure the delivery of key public services as prioritised by elected members. This process will be used to set a balanced budget for 2012/13</p>	Head of Accounting & Budgeting	February 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	104	<p>National Fraud Initiative</p> <p>The council is making slow progress in reviewing the NFI reports and taking appropriate action.</p> <p><i>Risk - Frauds against the council are not identified and action is not taken to prevent frauds reoccurring.</i></p>	<p>Of the 3639 matches provided for investigation, 1124 were classified by Audit Scotland as "recommended" matches. The focus has therefore been on these matches. While NFI is a useful tool, delays between the provision of data by public bodies and the data being made available to those bodies for investigation can mean that data is out of date. The general approach is and will continue to be focused on higher risk cases.</p>	Exchequer Manager, Policy & Development	28 February 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	129	<p>SPI Arrangements</p> <p>The council's own internal monitoring procedures had picked up on errors with two indicators (sickness absence and equalities) in previous years. However, changes were required to both of these indicators during the 2010/11 audit which had not been picked up through the internal checking process</p> <p>Risk - The internal monitoring arrangements for producing accurate and reliable performance indicators are not robust.</p>	<p>With responsibility for SPI reporting transferring to the performance team in the Chief Executive's service there will be a review of current SPI data processes including improving data validation by random and targeted sampling of indicators and a review of internal checking arrangements.</p>	Head of Policy & Performance	March 2012
7	136-139	<p>ICT contract</p> <p>Delivery of the transformation element of the Fujitsu project is problematic. Whilst the council has been proactive in seeking resolutions to the problems and has withheld payments until milestones are met, there are risks around the satisfactory delivery of the project.</p> <p>Risk - Corporate and curriculum services can not be provided because of failures in the transformation project.</p>	<p>The council has strong governance and contract management arrangements in place to ensure that Fujitsu complies fully with the requirements of the contract and that the expected benefits for the council are delivered from early in 2012.</p>	Assistant Chief Executive	March 2012