The Highland Council

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for members of the Highland Council and the Controller of Audit

November 2012

Contents

Key messages

2011/12 audit findings

We have given an unqualified opinion that the financial statements of The Highland Council for 2011/12 give a true and fair view of the state of the affairs of the Council and its group as at 31 March 2012 and of the income and expenditure for the year then ended. The Council's six statutory trading organisations made aggregate surpluses in the three years to 31 March 2012 and thus met the statutory requirement to break even over the three year rolling period.

Our audit of the financial statements identified a number of specific issues in relation to the preparation of capital accounting entries, and in discussion with officers, we agreed to delay the issue of our audit opinion beyond the 30 September deadline to allow the Council the time required to resolve these issues. The audited accounts were finalised on 25 October 2012. We will work with the Director of Finance to identify improvements to the final accounts preparation and audit process in advance of the 2012/13 closedown.

The Council spent £845.4 million on the provision of public services in 2011/12, including £96 million on its capital programme. In delivering these services, the Council generated an accounting surplus of £13.5 million. Adjustments are, however, required to this accounting surplus to reflect the statutory funding arrangements in place and once these are taken into account the financial statements show that the Council has increased its cash backed reserves by £1.9 million. As at 31 March 2012, the Council's unallocated general fund balance was £23.5 million, an increase of £5.5 million on the previous year.

The Explanatory Foreword to the Council's financial statements includes some of the nationally agreed indicators developed to assist in evaluating the Council's financial sustainability, the affordability of its financial plans, and the effectiveness of the financial management arrangements. These show that the Council can evidence effective financial management of its budget and in-year council tax debt, and that unallocated reserves are above its agreed strategy. This additional flexibility is likely to be needed to address the significant financial pressures facing the Council in the years ahead.

The Council has effective governance arrangements in place. Each year it assesses its own corporate governance arrangements against the CIPFA/SOLACE framework ‘Delivering Good Governance in Local Government’ and reports the results in the Corporate Governance Assurance Statement included within its financial statements. Although the 2011/12 assessment identified a number of areas for improvement, the overall results suggest that the Council has a sound governance framework in place.

The Council's performance management framework is robust and integrated with service planning and delivery. During 2011/12, the Council continued to make good progress in delivering the commitments set out in its 2008-2012 Corporate Plan, Single Outcome Agreement and Best Value Improvement Plan. The Council's 2012 performance survey results were also positive with 83% of respondents satisfied with Council services.

Outlook

Looking ahead, the financial outlook for public spending for the period 2012/13 to 2014/15 remains challenging. The high level figures for Scotland announced in the UK Comprehensive Spending Review indicate significant funding reductions in these years and effective planning will be required from councils to address this. The Council has been proactive in preparing financial plans and identifying savings to reflect reduced local government settlements. Budget planning for 2013/14 and 2014/15 has identified a funding gap of £29.7 million over the two years, and, so far, potential savings of £17.8 million have been identified. The Council is currently consulting with the public on these and other proposals for addressing the remaining £11.9 million shortfall.

On 1 April 2012, new arrangements for the delivery of integrated care in the Highlands came into effect. Under these new arrangements, the Council has lead agency responsibility for the delivery of Children's Services and NHS Highland has lead agency responsibility for Adult Community Care Services. From the outset, it was recognised that there would be a period of service redesign following the transfer date which would see services evolving in an integrated way. A Programme Board has been established to develop shared support services for integrated care in the Highlands, and a programme manager is currently being recruited. We intend to review the governance and internal control arrangements for integrated care in the Highlands as part of our 2012/13 audit. A joint scrutiny review of the new arrangements for delivery of social care services will also be undertaken by the Care Inspectorate and Audit Scotland in 2014/15.

Introduction

1. This report summarises the findings from the 2011/12 audit of The Highland Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit and Scrutiny Committee on 22 March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the 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 we 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 action and have a mechanism in place to monitor progress.

4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with elected members, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be made available to other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the Council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

6. The management of The Highland Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

7. The co-operation and assistance given to us by The Highland Council's members, officers and staff is gratefully acknowledged.

Financial statements

8. 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.

9. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, 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.

10. Auditors review and report on, as appropriate, other information published with the financial statements, including the Explanatory Foreword, Corporate Governance Assurance Statement, 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 on the financial statements.

Audit opinion

11. We have given an unqualified opinion that the financial statements of The Highland Council for 2011/12 give a true and fair view of the state of the affairs of the Council and its group as at 31 March 2012 and of the income and expenditure for the year then ended. The Council's six statutory trading organisations made aggregate surpluses in the three years to 31 March 2012 and thus met the statutory requirement to break even over the three year rolling period.

Legality

12. Through our planned audit work we consider the legality of the Council's financial transactions. In addition, the Director of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquires 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 which require to be brought to members' attention.

Corporate governance assurance statement

13. As part of our annual audit we review the disclosures made in the Corporate Governance Assurance Statement and the process for obtaining sufficient assurances to inform that content of the statement.

14. The 2010/11 statement included reference to a number of areas for development identified in relation to the Local Code of Corporate Governance. Progress has been made across these areas, however, several of them have been included in the 2011/12 statement as not all planned improvements have yet been implemented. Key actions identified in the 2011/12 statement to enhance existing arrangements include:

- agreeing a revised scheme of delegation for the Audit and Scrutiny Committee, and completing the review of the whistleblowing policy
- review and development of a new Local Code of Governance for 2012/13
- reviewing and reporting on the outcome of management actions in relation to data quality monitoring and access to the Carefirst system
- ongoing scrutiny and performance review of High Life Highland Ltd
- working with NHS Highland towards full integration of services for adults and children, with collaboration in respect of central and support services.

15. In his 2011/12 Annual Report the Head of Internal Audit and Risk Management provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance can be given on the adequacy and effectiveness of the Council's control environment during the year to 31 March 2012. This view is reflected in the Corporate Governance Assurance Statement.

16. We are satisfied with the disclosures made in the Corporate Governance Assurance Statement and the adequacy of the process put in place by the Council to obtain the necessary assurances. The Statement complies with the requirements of Delivering Good Governance in Local Government, published jointly by CIPFA and SOLACE.

Remuneration report

17. The 2011/12 Code of Practice for Local Authority Accounting in the United Kingdom introduced a new requirement for local authorities to report summary information in relation to exit packages awarded to employees. We are satisfied that the Remuneration Report includes the necessary disclosures on compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs, and has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant Council officers and elected members.

Accounting issues

18. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). Overall, we are satisfied that the Council prepared its 2011/12 financial statements in accordance with the 2011 Code.

Accounts submission

19. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Improvements to the accounts preparation processes and supporting working papers are required to reduce the number of queries and resulting adjustments to the accounts. A number of specific issues were identified in relation to the preparation of capital accounting entries, which cast doubt on the accuracy of the supporting asset registers. In discussion with officers, we agreed to delay the issue of our audit opinion beyond the 30 September deadline to allow the Council the time required to resolve these issues.

20. Following resolution of the issues, £17.611 million was transferred from the opening balance on the revaluation reserve to the capital adjustment account. Adjustments totalling £15.957 million were made to the 2011/12 figures resulting in an overall net transfer of £1.654 million from the capital adjustment account to the revaluation reserve as at 31 March 2012. The audited accounts were finalised on 25 October 2012 and are now available for presentation to members and publication. We will work with the Director of Finance to identify improvements to the final accounts preparation and audit process in advance of the 2012/13 closedown.

Refer Action Plan No. 1

Presentational and monetary adjustments to the unaudited accounts

21. The Council adjusted the financial statements to reflect the majority of our audit findings. These adjustments primarily relate to reclassifications within the balance sheet and comprehensive income and expenditure statement. The cumulative effect of these adjustments was to reduce total Comprehensive Income and Expenditure by £1.889 million and increase total assets less liabilities and net worth in the Balance Sheet by £1.889 million. A number of presentational amendments have also been processed to improve the disclosures within the accounts.

22. As is normal practice, the Director of Finance decided not to amend the financial statements for a number of immaterial errors and these were set out in our ISA260 'Communication of Audit Matters to Those Charged with Governance' report which was submitted to the Audit and Scrutiny Committee on 20 September 2012. Had adjustment been made, then the Surplus on the Provision of Services in the Comprehensive Income & Expenditure Statement (£13.458 million) would increase by £0.143 million and total assets less liabilities and net worth in the Balance Sheet would increase by £0.143 million. These amounts are not material to the financial statements and we agree with the Director of Finance's decision not to amend for them.

Heritage assets

23. The 2011 Code requires authorities for the first time to separately account for heritage assets in accordance with Financial Reporting Standard 30 (FRS). Heritage assets include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits values to be measured in any way which is appropriate and relevant.

24. The management of the Council's primary museums and collections transferred to High Life Highland in October 2011, although ownership of the collections remains with the Council. The Council has not recognised any heritage assets in its financial statements as cost information is not readily available and officers considered that the cost of obtaining valuations for the items would outweigh the benefits to users of the financial statements. We concurred with this assessment. Heritage assets totalling £2.1 million have been included in the Common Good Fund financial statements. These were previously classified as community assets and are included at insurance values based on assessments made by the Council's in-house insurance section.

Pension costs

25. The Highland 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 of the pension fund in its balance sheet. The valuation at 31 March 2012 provided by the scheme's actuaries increased the Council's share of the deficit from £152.6 million last year to £289.5 million this year. The large increase is mostly due to changes in actuarial assumptions such as mortality levels and the discount rate used to calculate scheme liabilities. The actuary has recommended that the Council's contributions should be maintained at 290% of employee's contributions in 2012/13.

Whole of Government Accounts

26. The whole of government accounts (WGA) are the consolidated financial statements for the UK government. The Council submitted the consolidation pack to the Scottish Government by the deadline of 29 July. The capital accounting issues identified during the financial statements audit and consequent delays in signing the accounts meant that the 5 October deadline for the submitting the audited WGA return was not met. The revised consolidation pack, submitted following certification of the accounts, had not been fully updated to reflect the adjustments made to the audited financial statements and so the audited return was not submitted until 2 November.

Refer Action Plan No. 1

Group accounts

27. The diversity of service delivery vehicles used by local authorities 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.

28. The Council consolidated the results of Inverness and Nairn Common Good Funds as subsidiaries, and Northern Joint Police Board, Highland and Islands Fire Board, Highland and Western Isles Valuation Joint Board and Highlands and Islands Transport Partnership as associates into its group accounts in accordance with the 2011 Code. The overall effect of the inclusion of these group entities was to reduce net assets by £232.9 million, mainly due to the inclusion of Joint Board pension liabilities.

Trust funds

29. The Highland Council administers 80 registered 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 Council's financial statements, supplemented by appropriate working papers.

30. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (1 council), above average (12 councils), average (14 councils) and below average (3 councils). The Highland Council improved its submission from 'below average' in 2009/10 to 'average' in 2010/11 and is currently reviewing its arrangements to enable full compliance by 2013/14.

Common good funds

31. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners, 'Accounting for the Common Good Fund'. The Council complies with this guidance as it includes a separate statement within the Council's financial statements and a separate common good asset register is maintained.

32. The Nairn Common Good Fund has been in debt to the Council for several years in respect of the costs of bringing land at Sandown to a saleable condition. As at 31 March 2012, the common good balance sheet contains a long term liability of £0.734 million in respect of these costs. Officers had previously advised us that the outstanding balance would be repaid from the sale of Sandown but we understand that the land has recently been withdrawn from sale until market conditions improve. As a result, it is unlikely that the Nairn Common Good Fund will be able to repay the outstanding liability to the Council in the short to medium term.

Refer Action Plan No. 2

Financial position

33. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

34. 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
- 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.

35. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

36. In 2011/12, the Council spent £845.4 million on the provision of public services, including £96 million on its capital programme. In delivering these services, the Council generated an accounting surplus of £13.5 million. Adjustments are, however, required to this accounting surplus to reflect the statutory funding arrangements in place and, once these are taken into account, the financial statements show that the Council increased its usable (cash backed) reserves by £1.9 million (see Exhibit 1 for details).

Budgetary control

37. Net service expenditure across the Council (general fund and HRA) was £624 million, an underspend of £4.439 million against budget. Within this overall underspend, there were some services which overspent against budget. The most significant of these was a £2.1 million overspend by transport, community and environmental services, the majority of which resulted from the unexpected costs of providing emergency transport following the landslide on the Stromferry bypass. The most significant underspend (£3.9 million) related to loan charges and resulted from underspends on the capital programme and lower than expected interest rates. Council tax and non-domestic rate income were also £1.6 million greater than budget.

38. The budget for 2011/12 was based on a Band D Council tax level of £1,163 and assumed net contributions from earmarked general fund reserves of £3.1 million. As a result of the underspends delivered by services, this contribution was not required and an additional £1.6 million was added to the general fund balance as at 31 March 2012.

Financial position

39. Exhibit 1 shows the balance in the Council's cash backed funds at 31 March 2012 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, a repair and renewal fund for financing expenditure incurred in repairing, maintaining, replacing and renewing non-current assets, an insurance fund to be used to self-insure general fund properties, and a capital receipts reserve to fund future capital expenditure. At 31 March 2012, the Council had total funds of £74.7 million, an increase of £1.9 million on the previous year.

Exhibit 1: Usable Reserves and Funds

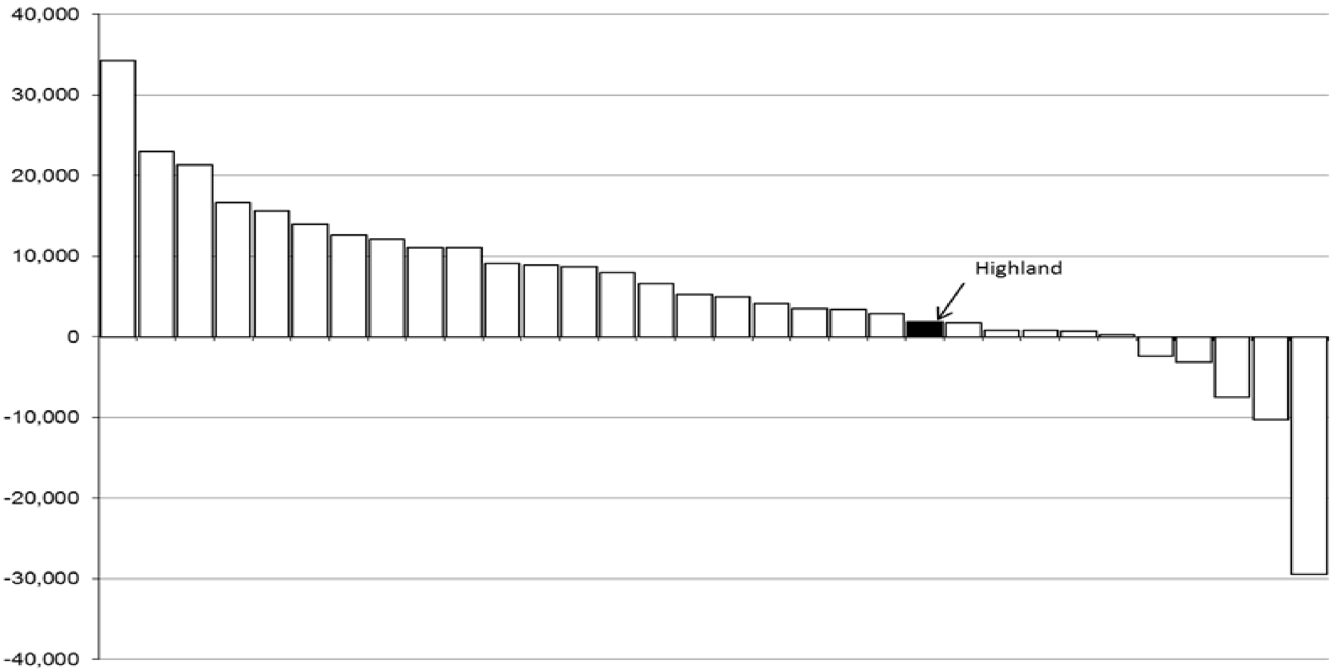
Description	31 March 2012 £ Million	31 March 2011 £ Million
General Fund	32,402	30,834
Housing Revenue Account Balance	6,804	7,524
Repair and Renewal Fund	1,665	1,486
Insurance Fund	2,226	1,678
Capital Fund	30,238	30,026
Capital Receipts Reserve	1,318	1,229
Total	**74,653**	**72,777**

Source: The Highland Council 2011/12 financial statements

40. The general fund totalled £32.4 million as at 31 March 2012. The Council aims to maintain a general fund working balance of up to 3% of its revenue budget (£18 million) as a contingency. At 31 March 2012, the Council had earmarked amounts totalling £8.9 million, leaving an unallocated general fund balance of £23.5 million, which is £5.5 million in excess of its £18 million target. This additional flexibility is likely to be needed in the short to medium term to address the significant financial pressures facing the Council in the years ahead. These are discussed in the outlook section below.

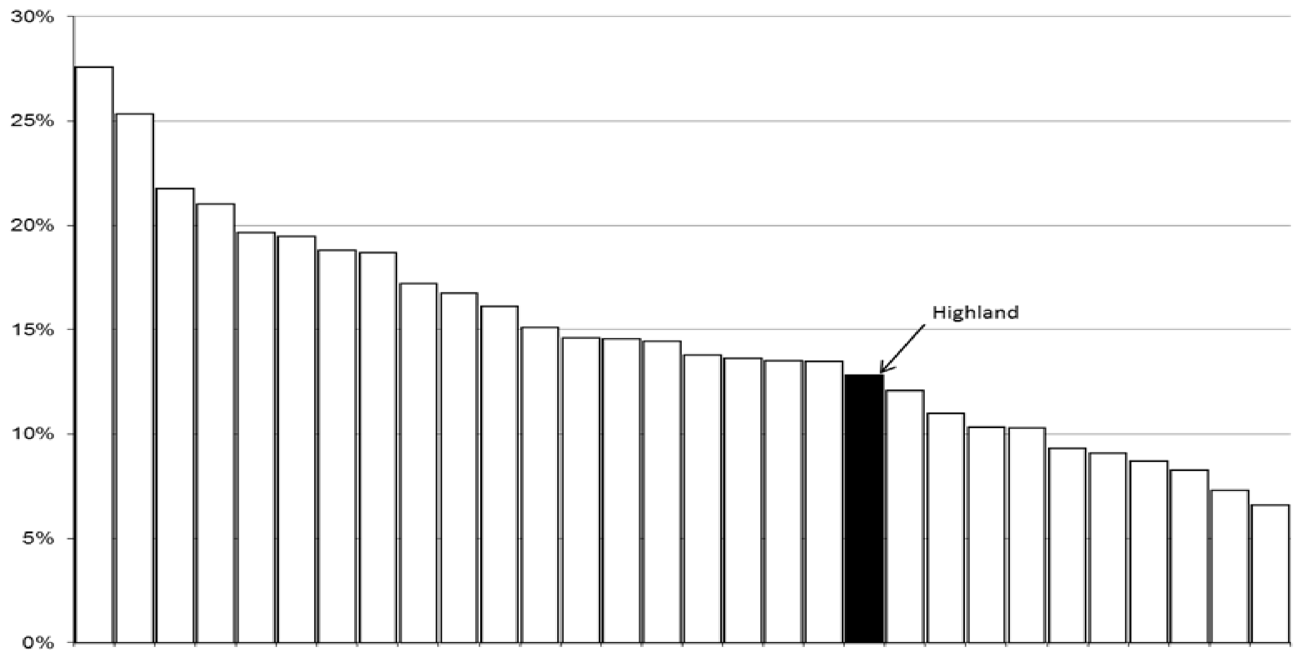
41. Exhibit 2 shows the movement in total usable reserves across all Scottish Councils in 2011/12 based on audited figures. The exhibit shows that most councils managed to increase their levels of usable reserves during the year. The comparison of total usable reserves held by local authorities as a proportion of net revenue expenditure during the year is shown at Exhibit 3. As highlighted, the Council falls slightly below the median level of 15%.

Exhibit 2: Increase/decrease in total usable reserves in 2011/12 (£000)



Source: Audit Scotland - Local Government in Scotland Analytical Review 2012

Exhibit 3: Usable reserves carried forward as a proportion of net revenue spend



Source: Audit Scotland - Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

42. CIPFA's Directors of Finance Group has developed a suite of financial indicators to assist in evaluating a council's financial sustainability, the affordability of its financial plans, and the effectiveness of the financial management arrangements. The indicators can also be used to compare financial performance across comparator councils. We are pleased to note that the Director of Finance included some of these indicators within his Explanatory Foreword to the annual accounts. Indicators covering the Council's level of debt and borrowing have not been included as the Director of Finance does not consider that these aid the interpretation of the financial statements as they are more relevant to budgeting decisions.

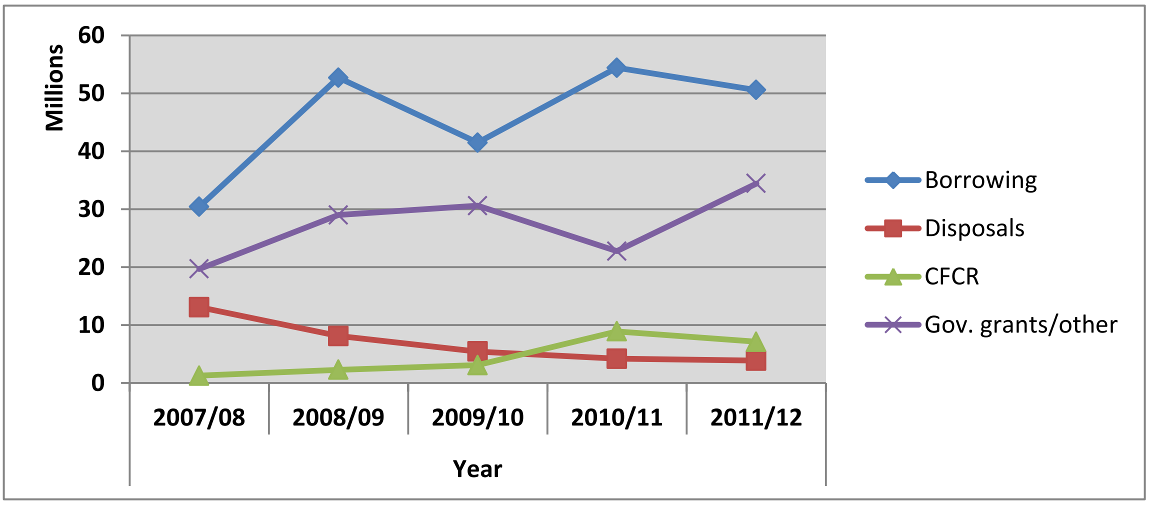
Capital investment and performance 2011/12

43. The Council's general service capital spend for 2011/12 was £72.3 million against a budget of £77.8 million, resulting in an underspend of £5.5 million (7%). The most significant slippage occurred in Education, Culture and Sports (including slippage on Ben Wyvis and Aviemore primary schools) (£6.6 million) and telephony aspects (£3.5 million) of the ICT contract. This was offset by additional spend on vehicle purchases and energy management projects which were advanced as part of the management of the capital programme.

44. The housing capital programme includes expenditure on the provision of new council housing and improvements to existing stock to meet the Scottish housing quality standard. Actual spend in 2011/12 was £23.6 million against a budget of £25.5 million, resulting in an underspend of £1.9 million (7.5%).

45. The trend in sources of funds for capital investment over the last five years is set out in Exhibit 4. This shows a decline in the funds received through the sale of assets reflecting the drop in the property market. Government grants and other contributions increased significantly in 2011/12 whilst advances made to services from the Council's loans fund remains the most significant source of funds for the Council's capital programme.

Exhibit 4: Sources of finance



Source: The Highland Council 2011/12 financial statements

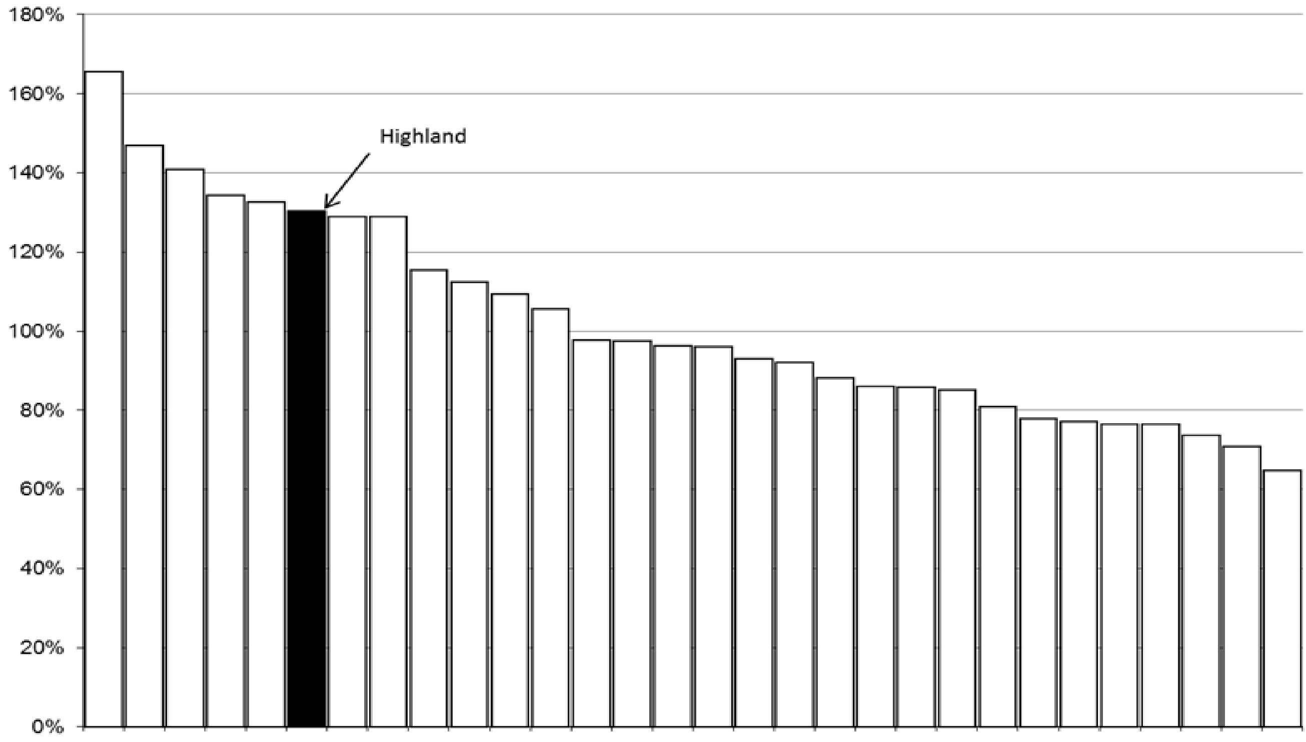
Treasury management

46. As at 31 March 2012, the Council held cash and cash equivalents of £57.3 million, an increase of over £13 million on the previous year. Borrowing increased from £645.7 million at 31 March 2011 to £693.7 million at 31 March 2012.

47. The Council raised £60 million of new loans from the Public Works Loans Board in 2011/12 to fund capital expenditure and its capital financing requirement. In addition, premature repayments of five small value high interest rate market loans were undertaken, incurring premiums of £36,000. As no replacement loans were taken out, the premium was fully written off in the year.

48. Analysis of net external debt as a proportion of net revenue spend gives an indication of the relative indebtedness of the Council. Exhibit 5 shows the net external debt as at 31 March 2012 as a proportion of the actual outturn for the year for all councils in Scotland, with the Highland Council highlighted as being at the higher end of the range.

Exhibit 5: External debt as a proportion of net revenue spend



Source: Audit Scotland - Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

Financial planning to support priority setting and cost reductions

Change management and efficiency

49. Over a number of years the Council has reviewed how it delivers its services and where it can make changes to its back office functions and management costs to improve efficiency and deliver savings to support front line services. The Corporate Improvement Programme (CIP) has delivered savings of £18 million over a three year period and brought about many positive changes to how the Council conducts its business. As a result of this the Council decided to develop a second Corporate Improvement Programme (CIP2) building on the progress of the first programme to deliver further cashable savings. Developments in a number of the major projects and financial savings achieved by the programme are highlighted below.

Asset management

50. Effective management of assets is essential to help the Council achieve its objectives and priorities, and get best value from its reducing resources. Strategic Property Asset Management, at the Council, is the responsibility of the Depute Chief Executive/Director of Housing and Property and is delivered by the Council's Corporate Property Asset Manager and his team.

51. In 2011/12 rationalisation of some of the Council's property portfolio generated capital receipts of £0.858 million, reduced running costs of £130,000 and a decrease in the Council's backlog maintenance responsibilities of £3.4 million. The rationalisation of the Council's property portfolio will also have a positive impact on carbon emissions and climate change targets. The CIP2 Asset Management project is expected to deliver savings of £0.65 million in 2013/14 and again in 2014/15 through further rationalisation of the property portfolio.

Business support

52. The business support functions (finance, administration, human resources, etc.) previously located in each service were reorganised into a new Business Support Service during 2011/12. This Corporate Improvement Plan project aims to deliver a single business support service which uses modern, efficient and standardised processes, including ICT to automate tasks and reduce staff numbers. Work is ongoing to fully implement the Council's Human Resources /Payroll system (ResourceLink) in order to streamline and automate currently labour intensive processes. The project is expected to generate savings of around £2 million.

Customer engagement & assessment

53. This CIP project exists to extend customer access to Council services whilst at the same time deliver improvements to those services in terms of process efficiency to exceed customer expectations and save money. Efficiencies realised by this project include the out of hours emergency line in partnership with the police and a reduction in the cost of handling cash and cheques through the customer services review and payments strategy implementation.

54. The project is forecast to deliver savings of £0.255 million per annum through streamlining customer facing processes, linking front and back office systems and increasing the opportunity for customers to self-serve. The Council's website will also be restructured to make it more accessible and enable customers to perform more transactions online if they wish.

Workforce reduction

55. Reduced local government settlements have implications for the Council's workforce with reduced spending on staff a key component of the way in which the Council is responding to the challenges it faces. The Council earmarked £3 million of its general fund balance at 31 March 2011 to meet the costs associated with reducing staff numbers over the next two years. During 2011/12 £1.9 million of this balance was utilised to meet the cost of redundancy payments and strain on the fund costs due to early release of pension benefits for 61 staff.

56. Savings associated with reductions in staff numbers are reported annually to the Audit and Scrutiny Committee. The saving from the reduction in these 61 posts was calculated at £12.2 million giving a net saving of £8.9 million once the capitalised costs to the Council's revenue account and the pension fund were taken into consideration.

Partnership working

57. 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 has the support of all partners within the Highland Public Services Partnership. The partnership has 181 performance indicators in place across the Scottish Government's 15 national outcomes. During 2011/12, the Accounts Commission led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. Our approach to this will continue to evolve in 2012/13.

Integrated Care in the Highlands

58. In May 2011, The Highland Council and Highland Health Board formally agreed to commit to planning for the integration of health and social care services by putting into place single lead agency arrangements for Adult Community Care Services (NHS Highland) and for Children's Services (The Highland Council). Both bodies have joint responsibility for specifying the outcomes to be achieved for service users and for the totality of resources allocated to each of the two service areas. A formal implementation programme plan was also approved by the Council and Board in May 2011.

59. The Partnership agreement between The Highland Council and the Board was signed by representatives of both authorities on 21 March 2012 ahead of the commencement of the new arrangements on the 1st of April. The Partnership agreement details the governance arrangements put in place as well as the model for financial disbursements, resource allocation and reporting arrangements.

60. The initial focus was on meeting the 1 April 2012 target date for establishment of the single lead agency arrangements. From the outset, it was recognised that there would be a period of service redesign following the transfer date which would see services evolving in an integrated way. A Programme Board has been established to develop shared support services for integrated care in the Highlands, and a programme manager is currently being recruited. Work is ongoing under the following work streams:

- property and estates - interim arrangements are in place and work is on-going to determine the future accommodation need for both adult and children's services
- finance - both organisations recognise the need for clarity around financial treatments and plans are being developed to address financial areas including billing and income, invoice processes and accounting for year-end over or underspends
- human resources - work continues to resolve staffing issues on a more permanent basis, including payroll, occupational health, health & safety and personnel
- information management and technology - this is the most complex aspect of the on-going work given the differing approaches adopted by both organisations and a longer term project plan has been developed and a project manager identified.

61. An Adult and Children's Services Committee has been established to exercise the Council's statutory functions with regard to Social Work and Social Care, and those delegated to Highland Council for Health Services by NHS Highland. An Adult Services Scrutiny and Development Sub-Committee has also been set up to ensure specific consideration is given to the delivery of adult social care services, and to oversee the commissioning of social care services for adults from NHS Highland.

62. Performance frameworks have been developed for both adult and children's services, and performance information, covering the period to June 2012, has been presented to the Council's Adult and Children's Services Committee and the Board. We intend to review the governance and internal control arrangements for integrated care in the Highlands as part of our 2012/13 audit. A joint scrutiny review of the new arrangements for delivery of social care services will also be undertaken by the Care Inspectorate and Audit Scotland in 2014/15 (see paragraph 119).

Refer Action Plan no. 3

Outlook

2012/13 budget

63. The Council has been proactive in preparing financial plans and identifying savings to reflect reduced local government settlements. In 2009 the Council commenced a three year budgeting process and in 2010 launched its first formal budget consultation process to identify savings for 2011/12 and 2012/13. Savings totalling £20.4 million were agreed for 2012/13, and, following the Spending Review in September 2011, these were sufficient to balance the 2012/13 budget. In February 2012, the Council approved a general fund budget of £573.111 million for 2012/13.

64. The Council's latest revenue monitoring report, based on the position as at 30 September 2012, projects that the estimated outturn will be £0.931 million (0.01%) more than budget at 31 March 2013. Within this overall projected overspend, there are two main variances. The Health and Social Care budget is projected to overspend by £1.937 million due to pressure on external placements for looked after children. This is offset by a projected underspend of £1.277 million on loan charges due to continuing favourable interest rates and a lower than anticipated opening loan debt position. Managers within the Health & Social Care Service continue to closely scrutinise and monitor planned and emergency placements with a view to minimising their financial impact.

Financial forecasts beyond 2012/13

65. As a result of financial constraints, the Council continues to face pressures on its budget. The Council's revenue allocation from the Scottish Government will reduce in cash terms over the next two years, and as a result of the Scottish Government's policy to re-profile capital grants to local authorities, the 2013/14 contribution to the Council will decrease before increasing in 2014/15.

66. The Council has commenced budget planning for 2013/14 and 2014/15 and identified a funding gap of £29.7 million over the two years. Potential savings of £17.8 million have been identified and the Council is currently consulting with the public on these and other proposals for addressing the remaining £11.9 million shortfall.

67. There are a number of national reforms which are likely to have an impact on the Council's future financial planning including Welfare Reform (see paragraph 91), police and fire reform, and the integration of health and social care (see paragraphs 58 to 62 above). The impact of these reforms remains uncertain, and future budgets may have to be amended as the implications become clearer.

Refer Action Plan no. 4

Governance and accountability

68. 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.

69. 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.

70. 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

71. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

72. The Council has effective governance arrangements in place. Each year it assesses its own corporate governance arrangements against the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' and reports the results in the Corporate Governance Assurance Statement included within its financial statements. The 2011/12 assessment identified a number of areas for improvement in 2011/12, but overall, the results suggest that the Council has a sound governance framework in place. The Assurance and Improvement Plan Update 2012-15 assessed the Council as having no significant risks in this area.

73. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The Audit and Scrutiny Committee meets regularly to receive reports from internal and external audit and scrutinise performance. The Committee is well attended and overall, complies with the expectations set out in CIPFA's guidance note 'Audit Committee Principles in Local Authorities in Scotland'.

74. The Director of Finance is a member of the Council's senior management team. CIPFA have recently issued a Statement on the Role of the Chief Financial Officer in Public Service Organisations and the 2011 Code introduced a requirement to report the Council's compliance with this statement in its Corporate Governance Assurance Statement. A review undertaken by the Assistant Chief Executive confirmed that the Council complies with most of this Statement. To further improve the Council's governance arrangements financial regulations will be revised to clarify that the Director of Finance has direct access to the Audit and Scrutiny Committee.

Internal control

75. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our overview of the Council's internal audit service confirmed that the section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

76. As part of the 2011/12 audit, we relied on the work undertaken by internal audit on the following systems: general ledger, payroll, council tax, and housing and council tax benefits systems. The results of our review of the controls in operation within the Council's remaining financial systems were reported to the Audit and Scrutiny Committee in September. We made eight recommendations to further enhance the Council's system of internal financial control. We will monitor progress made in implementing the agreed recommendations as part of our 2012/13 audit.

77. One material weakness in the accounting and internal control systems was identified during our audit work and reported to the September meeting of the Audit and Scrutiny Committee. Regulation 6 of the investment regulations required administering authorities to set up separate bank accounts for pension fund money with effect from 1 April 2011. Although the Council set up these separate bank accounts, not all of their processes were amended to ensure that all of the pension fund income and expenditure transactions were banked / paid through the pension fund bank account. In addition, external partners continued to make payment to the Council and not the Pension Fund. Processes are currently being revised to ensure that pension fund transactions are recorded in the correct bank accounts in future years.

Information technology/data handling and security

78. The Council's information systems are provided by Fujitsu Services as part of a five year contract which commenced on 1 April 2010. Last year we reported that the Council had written to Fujitsu, in June 2011, identifying areas of concern relating to their compliance with their contractual obligations and formally requesting an overarching plan to address the issues raised. In October 2011, the Council and Fujitsu jointly resourced a team to address the Council's concerns. Regular reports on progress to address the items of non-compliance were presented to the joint Partnership Board and the Council's Finance, Housing and Resources Committee. We have been advised that the all corrective actions were due to be substantially complete by October 2012. We intend to review progress in this area as part of our 2012/13 audit.

79. In order to express an opinion on the financial statements, we are required to obtain sufficient appropriate evidence on the nature of the services provided by Fujitsu and their significance to the Council including their effect on the Council's internal control system, and the risk of material misstatement within the financial statements. Internal audit undertook work on establishing the nature of the controls and assurances in place and in May 2012, external audit, Internal Audit and the Council's ICT service met with representatives of Fujitsu to discuss the controls in operation to ensure the security and proper management of the Council's information. We have placed reliance on the ISO27001 accreditation held by Fujitsu for the purposes of our 2011/12 audit. ISO27001 is the most influential and globally recognised standard for information security management, and we are content that the accreditation covers the period of our audit and all of the sites where Council data is held.

80. The contract with Fujitsu allows the Council to conduct audit reviews, for various purposes, each year at the Council's discretion. We understand that the Head of Internal Audit and Risk Management intends to hold further meetings with Fujitsu to explore how further assurances can be obtained over the security and integrity of the Council's data and we encourage the Council to make use of the contract provision as part of these discussions.

Refer Action Plan no. 5

Caithness Heat and Power

81. Caithness Heat and Power (CHaP) was a company established by the Council to progress a district heating system project. In May 2011, the Council announced it was terminating the procurement exercise to find a private sector operator to take over the district heating system in Wick. The Council further decided, on 27 October 2011, to take over CHaP's trade and assets for £1 and to wind up the company.

82. CHaP ceased trading on 23 December 2011. An operator purchased, at auction, some of the assets formerly owned by the company and commenced energy supply operations to the company's former customers in early 2012/13. The Council retains the obligation to reinstate traditional heating systems within its housing stock where alternatives are no longer available.

Prevention and detection of fraud and irregularities

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

84. 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 whistle blowing policy; codes of conduct for elected members and staff; and defined remits for committees.

85. It is good practice to review policies periodically to ensure that they remain fit for purpose and reflect subsequent changes in legislation, guidance, etc. Our audit identified that there was no evidence that the Whistleblowing Policy had been reviewed and updated since it was approved in June 2001. The Council is aware of this issue and has included review of its whistleblowing policy as an area to be addressed within the Corporate Governance Assurance Statement included in its 2011/12 financial statements.

NFI in Scotland

86. The National Fraud Initiative in Scotland (NFI) uses data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

87. The previous data matching exercise started in October 2010, with overall findings reported in May 2012. The latest round of NFI started in June 2012, and expands the range of data sets and bodies. The Highland Council submitted all of the required data sets, except those used for checking duplicate payments. The Council's accounts payable software is able to identify potential duplicate invoice payments so there is no need to do this checking under the NFI. We will report on the progress made by the Council in reviewing its data matches in next year's annual report on the audit.

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

88. 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. We have concluded that the arrangements in The Highland Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Complaints Handling Procedures

89. The Council's corporate complaints handling process was reviewed in response to guidance issued by the Scottish Public Services Ombudsman (SPSO). The SPSO reviewed complaints handling procedures across all 32 Scottish local authorities and along with local authority representatives developed a model complaints handling procedure (CHP) for councils. Under the terms of the SPSO Act 2002 all councils have a duty to comply with the model CHP and to submit complaint CHPs to the SPSO by 14 September 2012

90. The SPSO have signed off the Council's CHP and the new process will go live at the end of November 2012. Compliance with the CHP will be monitored by Audit Scotland in conjunction with the SPSO through the Shared Risk Assessment (SRA) arrangements.

Outlook

91. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

92. As part of our work on the 2012/13 audit, we will consider the Council's preparedness for the introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Best Value, use of resources and performance

93. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

94. 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 specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

95. As part of their statutory responsibilities, the Auditor General and 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.

96. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. 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.

97. 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 and the Council's response to these.

Management arrangements

Best Value

98. In 2009/10 The Highland Council was one of five 'pathfinder' sites for the Best Value 2 audits. The audit concluded that the Council demonstrates that it is improving well and is well placed to deliver future improvements. Effective partnership working and community engagement were highlighted as areas of strength. An improvement plan was agreed by the Council in June 2010 to address the areas for improvement raised by the audit.

99. The improvement plan contained 92 action plan points which are monitored through the Council's quarterly performance review process (see paragraph 100). At the time of writing, we were advised that 10 actions showed some slippage. The remaining actions have been completed or are progressing well. On-going actions relate to some elements of the Corporate Improvement Programme and the Workforce Development Plan, which continue to be monitored through the relevant Programme Board, or Service Plan.

Performance management

100. The Council's performance management framework is robust and integrated with service planning and delivery. Performance information is recorded and reported on an electronic Performance and Risk Management system, with service performance reviewed through Quarterly Performance Reviews (QPR) where service directors and senior managers are held to account. Overall, the Council is making good progress on delivering its commitments.

101. Performance against the 120 commitments set out in the Council 's 2008-2012 corporate plan continued to be monitored through the Performance and Risk Management system during 2011/12. As at 31 March 2012, 111(93%) of these commitments were either complete, progressing well, on target or performance was being maintained. Of the remaining 9, there were six (5%) where performance was mixed and three (2%) where commitments had not been met (the number of trainees and apprentices employed by the Council, and the proportion of enquires dealt with at the first point of contact). Key commitments delivered in 2011/12 include:

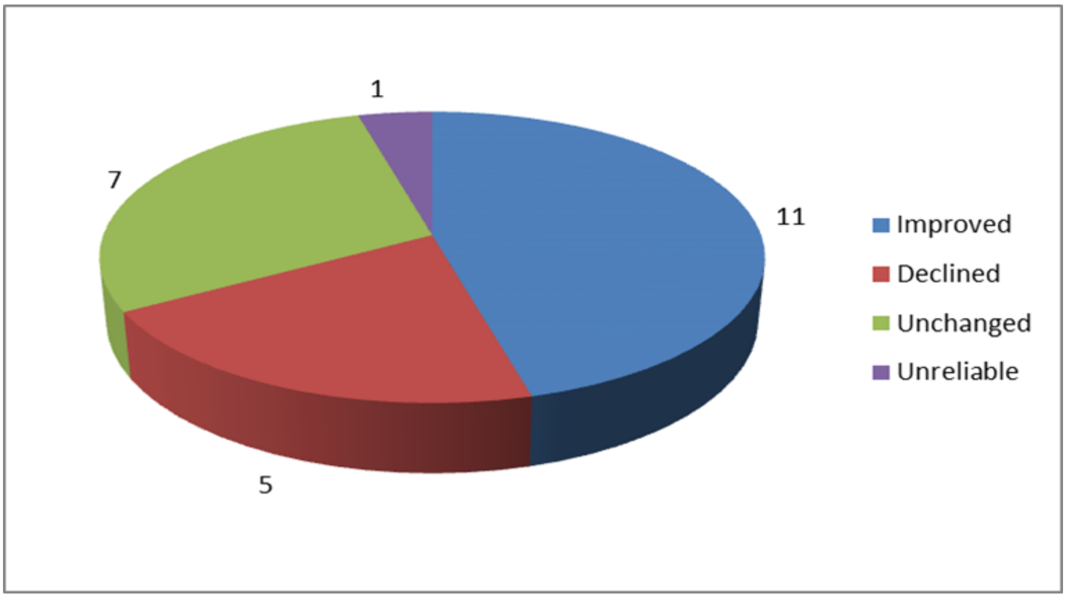
- exceeding the target to build new homes and improve existing Council housing
- introducing an alternative weekly collection for municipal waste
- securing funding for a replacement Wick High School
- securing a 13% reduction in carbon emissions from the 2007/08 baseline.

102. As part of the Single Outcome Agreement, the Council and its community planning partners agreed joint commitments to deliver better outcomes for the people of the Highlands. These commitments were grouped under 15 local outcomes, supported by 178 performance indicators. The Single Outcome Agreement performance report for 2011/12 shows that 77% of the community planning performance indicators, where data is available, have improved, been maintained or completed.

Statutory performance indicators

103. Another way of measuring the Council's performance is through the statutory performance indicators (SPIs). These provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. The Council was required to report a total of 25 SPIs for 2011/12. Exhibit 6 shows the changes in the SPIs compared to the previous year. The measurement basis for one indicator, municipal waste, changed for 2011/12 so no comparison can be made with the prior year.

Exhibit 6: Changes in SPIs compared to previous year



The Highland Council SPI data return

104. Indicators showing improvement include the processing time for planning applications, visits to museums and compliance with the Scottish Housing Quality Standard. Sickness/absence levels have also improved with Council workers taking 12,000 fewer sick days than in the previous 12 months. SPIs where performance has declined include tenancy changes, domestic noise complaints and use of libraries. The Council has investigated those SPIs where performance has declined and is taking action to improve performance in future years.

105. Each year we review Internal Audit's work on the SPIs and local performance indicators (LPIs) and we have again taken assurance from their work in 2011/12. Internal Audit found that whilst the Council had good guidance covering the collection, recording and publication of the SPIs, these arrangements did not apply to the LPIs. They also found a lack of awareness of the SPI guidance requirements with regard to roles and responsibilities, record retention and documented procedures. One indicator, Sport and Leisure Management, was assessed as unreliable in 2011/12 by Internal Audit due to data not being available for community use of integrated school and community leisure facilities. Internal Audit has prepared a draft report setting out their findings and recommendations for improvement which is currently being discussed with management.

Community/user engagement

106. The Council demonstrates effective community engagement through its ward structures and special interest forums, and along with its community planning partners, has adopted the national standards for community engagement.

107. One of the ways the Council listens to its communities is through the annual survey of Council performance and attitudes. This survey is completed by the Citizens' Panel which was set up in 2010, and consists of 2,300 adults. Overall, the 2012 performance survey results were positive with 83% of respondents satisfied with Council services and 90% agreeing that they found it easy to contact the Council. The majority (42) of the Council's 45 service areas had positive net satisfaction scores, but in 3 (planning and building warrants, services to reduce youth offending and road repairs and potholes) respondents were more dissatisfied than satisfied with the service provided. Dissatisfaction with these services has been consistently expressed in the last five surveys. It is hoped that recent Council commitments to improve road maintenance will improve scores in future years.

National performance reporting

108. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 7.

Exhibit 7: A selection of National performance reports 2011/12

- Commissioning social care
- The National Fraud Initiative in Scotland
- An overview of local government in Scotland - challenges and change in 2012
- Review of Community Health Partnerships
- Reducing greenhouse emissions
- The role of community planning partnerships in economic development
- Modernising the planning system
- Using cost information to improve performance: are you getting it right ?
- Managing performance: are you getting it right ?

Source: www.audit-scotland.gov.uk

109. Audit Scotland encourages local authorities to review national reports, assess local performance against them and identify actions required to improve performance. The expectation is that these reports are presented to an audit or scrutiny committee for members to review and to question management on key issues.

110. Within The Highland Council, all national performance reports published by Audit Scotland are presented to the relevant Strategic Committee to enable members to consider and agree the action proposed in response to the report's recommendations. Each report is also submitted to the Audit and Scrutiny Committee as its remit includes ensuring that appropriate action was taken by individual Strategic Committees in response to national reports. This ensures that officers and members review the findings and recommendations included in each report in order to identify any that will assist the Council in its drive for continuous improvement.

111. The Audit and Scrutiny Committee recently agreed to undertake a scrutiny exercise using the checklists contained within two of Audit Scotland's national reports: *Using cost information to improve performance: are you getting it right ?* and *Managing performance: are you getting it right ?* This exercise will be undertaken by Internal Audit and the Scrutiny Working Group, following approval of the remit by full Council in December 2012.

Local performance reporting

112. In 2010, Audit Scotland agreed to undertake targeted follow up of a small number of performance audit reports each year to promote local impact and assess how far individual public bodies have improved performance as a result of selected, relevant national performance audits.

113. *Maintaining Scotland's roads: a follow up report* was selected for targeted follow-up in 2012 to assess the progress made by all 32 Scottish Councils in improving their management of roads maintenance, focusing on road asset management planning, performance management and maximising value for money.

114. Our follow up review found that the Council had prepared a high level action plan to address the report's recommendations, although progress against this had yet to be reported to Committee. As part of our follow up work, management provided an update of progress made since May 2011. The update highlighted that, although the data management plan had been finalised and was about to be issued, the majority of the other high level actions had yet to be completed as at February 2012.

115. In response to our local report, an update on progress made against the high level action plan and a revised Road Asset Management Plan was presented to the Transport, Environmental & Community Services Committee in September 2012. In addition, the Council continues to refine its systems to enable reporting of roads maintenance performance data and improve the quality of information held for transport infrastructure assets on its roads asset management database.

Progress against scrutiny risks identified in the Shared Risk Assessment (SRA)

116. The first Assurance and Improvement Plan (AIP) for The Highland Council was published in July 2010. That document set out the planned scrutiny activity for the Council for the period April 2010 to March 2013 based on a shared risk assessment undertaken by a local area network (LAN) made up of representatives of all of the main local government audit and inspection agencies.

117. The AIP has been updated twice since 2010 with the latest version being reported to the Council in September 2012. As in previous assessments, the 2012 refresh concluded that there were no significant scrutiny risks for the Council. Positive findings from the Scottish Housing Regulator's focussed review of the Council's housing service resulted in the previous uncertain scrutiny assessment being revised to no significant scrutiny risks in 2012.

118. Some areas of uncertainty remained for the LAN following the 2011/12 refresh. The LAN recognised the uncertainty faced by the Council, and all public bodies, in relation to the financial position, but noted that the Council continues to be proactive in responding to the current financial environment. Uncertain scrutiny risks also remained in relation to community learning and development services now provided by High Life Highland, and shifting the balance of care for older people from residential to home care. The effectiveness of the Council's new approach to self-evaluation in delivering improved outcomes for service users was also identified as an area of uncertainty for the LAN.

119. In addition, social work services remained an area of uncertain scrutiny risk as it was too early to assess what impact plans to integrate health and social care services would have on outcomes for service users (see paragraphs 58 to 62). A joint scrutiny review of the new arrangements for delivery of social care services will be undertaken in 2014/15 by the Care Inspectorate and Audit Scotland. The LAN will meet again towards the end of 2012 to update the SRA and determine whether any further scrutiny work is required for The Highland Council.

Outlook

120. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.

121. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the Council in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Month of issue	Date presented to Audit Committee
Annual Audit Plan	March 2012	22 March 2012
Shared Risk Assessment/Assurance and Improvement Plan	May 2012	20 September 2012
Maintaining Scotland's roads - follow-up review	June 2012	20 September 2012
Internal controls management letter	September 2012	20 September 2012
Report on financial statements to those charged with governance	September 2012	20 September 2012
Audit opinion on the 2011/12 financial statements	October 2012	13 December 2012 (Full Council)
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	November 2012	N/A
Report to Members on the 2011/12 audit	November 2012	13 December 2012 (Full Council)

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	19, 20 & 26	**Financial Statements** Our audit identified one material weakness, relating to the arrangements for capital accounting, in the Council's accounting systems. Additional work was undertaken by external audit and Finance staff to identify the amendments required, and the unaudited accounts were adjusted for these and other financial misstatements identified as part of the audit process. ***Risk: potential misstatement of the Council's income, expenditure and year-end financial position. If material amounts are involved, the accounts may be qualified or may not be signed off by the target date.***	The arrangements for preparing the capital accounting entries for 2012/13 will be updated for the changes resulting from the audit, thus ensuring that there will be no on-going consequences in respect of capital accounting for future accounts.	Head of Accounting and Budgeting	January 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	32	**Nairn Common Good** The Nairn Common Good Fund has been in debt to the Council over several years and as at 31 March 2012 the outstanding balance was £0.734 million. Officers had previously advised us that the outstanding balance would be repaid from the sale of Sandown but we understand that the land has recently been withdrawn from sale until market conditions improve. ***Risk: the Nairn Common Good Fund will be unable to repay the Council for work done on Sandown lands in the short to medium term.***	The value of the land, although reduced for accounting purposes, is still significantly above the outstanding liability to the Council and therefore there is little risk of default on the debt. We will, however, continue to monitor the situation and any appropriate opportunity will be taken to realise investment potential and satisfy the outstanding liability.	Head of Accounting and Budgeting	Reviewed at each financial year end

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	58 to 62	**Integrated Care in the Highlands** New arrangements for the provision of health and social care services commenced on 1 April 2012. Work is ongoing to redesign frontline services and develop shared support services including property and estates, finance and information management and technology. ***Risk: the new arrangements do not deliver the agreed outcomes for service users.***	The current financial year (2012/13) has been recognised by Highland Council and NHS Highland as being one of transition, where the final details associated with the Lead Agency arrangements required to be confirmed on the basis of implementation and practice. This has new Shared Services approaches. It has also included the secondment of staff between the organisations without permanent resource transfer. Discussions have yet to be concluded on the financial implications of these arrangements, and this is likely to be dependent on the longer term approach taken from April 2013.	Director of Health & Social Care	March 2013 but subject to ongoing review thereafter

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	65 to 67	**Financial pressures** The Council has identified a funding gap of £29.7 million in its 2013/14 and 2014/15 budgets. Potential savings of £17.8 million have been identified together with proposals for addressing the £11.9 million shortfall. A number of national reforms are also likely to impact on the Council's future financial planning including Welfare Reform, police and fire reform, and the integration of health and social care. ***Risk: the Council will be unable to deliver a balanced budget for 2013/14 or 2014/15.***	The Council has a robust multi-year 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 in future years.	Head of Accounting and Budgeting	February 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	80	**Data handling & security** The contract with Fujitsu allows the Council to conduct audit reviews, for various purposes, each year at its discretion. We understand that the Head of Internal Audit and Risk Management intends to hold further meetings with Fujitsu to explore how further assurances can be obtained over the security and integrity of the Council's data and we encourage the Council to make use of the contract provision as part of these discussions. ***Risk: the security and integrity of the Council's data is not safeguarded.***	Assurance work on data handling and security will be undertaken each year in order to support the Head of Internal Audit & Risk Management's Statement on Internal Control. In order to support the 2012/13 Statement, specific work will be undertaken to examine the controls in place over the integrity, confidentiality and security of the Council data managed by Fujitsu.	Head of Internal Audit & Risk Management	Annually