

# The Highland Council

**Report to Members and the Controller of Audit  
on the 2008/09 Audit**

**October 2009**



 **AUDIT SCOTLAND**

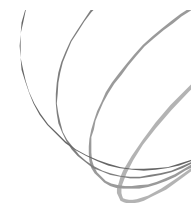


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# Key Messages

We have given an unqualified opinion that the financial statements of The Highland Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year.

The pressures arising from the current economic climate in 2008/09 have put added emphasis on the need for robust procedures to ensure spending is kept within budget. The council are actively managing their budget and budgetary control systems are sound with monitoring reports being submitted to service committees on a frequent basis. The council net revenue outturn for 2008/09 was £5 million (0.9%) below budget, resulting from a variety of underspends across services. The council continues to pursue and explore options, mainly through the corporate improvement programme, whereby efficiency gains may be achieved and economies in the delivery of service achieved.

The council have determined that general fund balances held for contingencies as non earmarked reserves should be at a level of 3% of the revenue budget which equates to approximately £17 million for 2008/09. However only £13 million of balances had been left unallocated as at 31 March 2009. Going forward the council is taking steps to ensure it maintains a healthy contingency balance particularly in the current challenging economic climate.

The council have a Local Code of Corporate Governance in place and regularly monitor performance against this. There are however a number of issues outstanding from the 2008/09 targets which have not yet been completed. These include completion of a review of the Employee Code of Conduct, developing the Recruitment Strategy and completing the review of health and safety structures within the council. Internal Audit have also identified the need to strengthen arrangements in relation to the policy and administration of common good funds and to ensure more robust compliance with the council's Contract Standing Orders.

In August 2008 the council agreed to take over Caithness Heat and Power (CHaP). The company had been set up as a joint venture with the council to deliver an innovative district heating system to 500 houses in Wick. However the company failed to deliver its objective and has experienced a range of technological, financial and governance problems. A draft report recently prepared by the Head of Internal Audit (not yet issued) in relation to Caithness Heat and Power (CHaP) has identified that the governance arrangements for this project were poor. The council's governance arrangements were not complied with in the set up of the project or its ongoing monitoring. The council has contributed over £5.4 million to CHaP to date. Potential future costs of the project will be finally determined at the conclusion of the current procurement process when it will be decided how the project is to be taken forward. To date the council has obtained



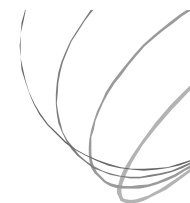
expressions of interest from a number of companies who may be interested in taking over the generation of power to the properties covered by the project. It is hoped that a decision will be taken on the future of the project early in 2010. It is estimated however that in the worst case if the council has to reinstate more traditional methods of heat generation to the properties total costs over the lifetime of the project could reach in the region of £16 million. The council is now to ensure that similar weaknesses have not occurred with other joint working arrangements and that lessons are learnt for future projects. An action plan addressing the specific issues raised in the report is to be prepared as a priority.

The council is one of the pathfinder audits for the Best Value 2 (BV2) audit approach and work on the audit is currently ongoing. The findings from this report will feed into the results of the BV2 work which will be reported separately in April 2010. Some early conclusions feeding into the BV work are that performance management and reporting arrangements are sound but continually developing and the acquisition of an electronic system to facilitate the recording and reporting of performance should further enhance arrangements in this area. Development work included on the council's improvement agenda includes areas such as asset management and procurement.

## Outlook

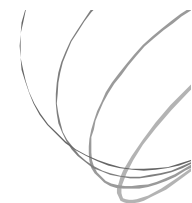
The council continues to face significant challenges in matching expenditure commitments to available resources in 2009/10. Non-recurrent capital receipts which provided some respite in prior years are less likely to arise. The council's corporate management team have recognised this and all services have brought forward action plans demonstrating real reductions in planned expenditure. Services were asked to develop savings within their budgets achieving an average saving of 2.9%. Specific pressures on the social work budget identified in June 2009 have led to a budget recovery plan in this area which is being closely monitored.

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



# Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of The Highland Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the new corporate assessment framework, which is being developed for Best Value 2 (BV2) and for joint scrutiny work. The framework is founded on the characteristics of a best value council. Using evidence gathered in the course of the audit, supplemented by other work by Audit Scotland and other scrutiny bodies, we comment on the council's position this year.
3. The council is one of the pathfinder audits for the BV2 approach and work on the best value is currently taking place. This document encompasses only the findings from our normal annual audit work during the year and will feed into the results of the BV2 work which will be reported separately in the new year and on which we will build on for future years audits. The comments therefore made in this report are made on the basis of information made available in the course of the annual audit.
4. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
  - the impact of the race equality duty on council services.
  - improving energy efficiency.
  - asset management in councils.
  - overview of drug and alcohol services.
  - mental health overview.
  - civil contingencies planning.
  - strategic procurement.
5. We mention the key findings from these reports and the implications for the council in the performance and use of resources sections of this report. Full copies of the studies can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



6. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.
  
7. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Parliament's Public Audit Committee and the Parliament's Local Government and Communities Committee.



# Financial statements

## Introduction

8. In this section we summarise key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

## Audit Opinion

9. We have given an unqualified opinion that the financial statements of The Highland Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2008/09 accounts were satisfactory and responses to queries and questions raised during the audit by finance staff were prompt and comprehensive.
11. The accounts were certified by the target date of 30 September 2009 and are available for presentation to members and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Accounting issues

12. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2008 SORP. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.
13. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to officers. Details of significant accounting adjustments arising in the course of our audit are summarised below but have been fully reported in the ISA 260 Report which has been presented to Audit & Scrutiny Committee.





## Significant accounting adjustments

14. During the financial year five schools built under the Public Private Partnership 2 arrangements were taken into use. As a consequence the old schools which these replaced were demolished to make way for sports fields and car parking. The value of two of these old schools was treated as an impairment which reflected the correct accounting treatment but the remaining three schools were not impaired. This was subsequently adjusted in the financial statements leading to an increase in the net deficit in the Income and Expenditure Account of £12.7m. There was however no overall effect on the General Fund balance as a corresponding adjustment was required by statute.
15. A number of property transactions were incorrectly recorded in the fixed asset register and had to be subsequently adjusted. These included the incorrect impairment of land and buildings in council ownership, omissions in revaluing two properties and failure to recognise enhancing expenditure on fixed assets. The acquisition of the Aquadome was also not adequately recognised. The total effect of these adjustments was to increase fixed/net assets by £5.418m and decrease the net deficit by £5.065m. These changes did not however impact on the capital expenditure position.

## Audit testing

16. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
  - Main accounting system
  - Accounts payable
  - Accounts receivable
  - Payroll
  - Cash & Bank
  - Revenues
  - Housing rents
  - Pensions
17. We relied on the work of internal audit in the following areas to support our work: creditors, payroll, general ledger, pension investments and benefits administration.
18. We did report on either good practice and weaknesses in relation to the above systems, none of which were significant enough to prevent us from placing reliance on the councils systems for our opinion purposes. There is however one matter which we would like to bring to your attention as it is an issue that has been constantly raised during the audits over the years and is concerned with the lack of reconciliations between the Assessors system and the councils Non Domestic Rates systems. Despite constant reassurance that regular reconciliations would take place this is still not happening within the council. There is therefore no proper assurance that the assessors' records and the council's records match.

**Key Risk Area 1**



## Prevention and detection of fraud and irregularities

19. At the corporate level, the 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 relevant regulatory committees.
20. Five members had their conduct referred to the Standards Commission during the year but none were found to have breached the Code of Conduct.

### NFI in Scotland

21. 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. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
22. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010. The Highland Council had over 3000 data matches (however not all of these were high grade matches), grouped into nine categories as set out in the following table. The council has recorded some progress within the categories of data matches showing the highest volume of matches but progress in other areas has been poor. We are aware that payroll have been focussing on job evaluation hence the delay in investigating the results and have agreed a timetable with them whereby all the high risk results will be investigated before the calendar year end.

#### **Key Risk Area 2**

23. The results from data matching activity to date has resulted in projected savings/identified overpayments of some £21,309.

### Exhibit 1.

#### Number and progress on main categories of NFI data matches

Category	Processed	In-progress	Fraud identified	Error identified	Amount saved (£)
Housing Benefit	161	18	3	1	7,413
Housing Rents	26	6	0	0	0
Rent Arrears	0	0	0	0	0
Right to buy	4	0	0	0	0



Category	Processed	In-progress	Fraud identified	Error identified	Amount saved (£)
Pensions	0	72	0	0	0
Blue Badge Parking	298	0	0	35	0
Residents in Care	50	0	1	0	13,896
Pensions/DWP Deceased	72	0	0	0	0
Payroll	8	1	0	0	0
	547	97	4	36	21,309

## Housing Benefit

24. From April 2008, Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.
25. A risk assessment was undertaken in The Highland Council as part of the above programme and a report was published in August 2008. We reported the main conclusions arising from the assessment to Members in our report last year and the eight recommendations made have now been implemented to improve the administration of benefits.

## Group accounts

26. The diversity of service delivery vehicles used by local councils means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

## Joint ventures and companies

27. The council has interests in four subsidiaries and four associates and joint ventures. They have been included in group accounts in accordance with the SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts.
28. The overall effect of inclusion of the council's subsidiaries and associates is to reduce net worth by £177 million, mainly because of pension liabilities. However, the group accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.



29. The following issues should be noted:

- two of the associates, Northern Joint Police Board and Highlands and Islands Fire Board, had a technical qualification to their audit opinions as a result of an issue relating to the accounting treatment of FRS 17(Retirement Benefits) pension costs which has arisen due to an omission in the legislation relating to this area.
- in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets at market value; have been aligned with the council.

## **Trust funds**

30. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. The Office of the Scottish Charities Regulator (OSCR) has deferred the national date of full implementation though we understand that this may now be required for the 2009/10 rather than 2010/11 accounts. This meant that reliance could be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers for this year but changes will be required for future years.
31. The Council currently administers eighty registered charitable funds and to comply with the Charities Accounts (Scotland) Regulations 2006 in 2010/11 will be required to produce a set of financial statements for each one. In recognition of the amount of onerous work that will be required the council are currently working with the Scottish Community Foundation with a view to amalgamating some of the funds within the current legal constraints for charities. They are also working closely with OSCR to improve and enhance their submissions.

## **Common good funds**

32. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good funds to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
33. A separate account for the common good is disclosed in council's financial statements; however, a complete fixed asset register is not maintained. Further work is required to establish the register and to ensure the completeness of common good assets. Although the council is concerned about the time involved in reviewing title deeds, a process will be put in place to review significant assets over a reasonable period of time to determine if there are other potential common good assets to be included or amendments required in respect of the assets already recorded.

**Key Risk Area 3**



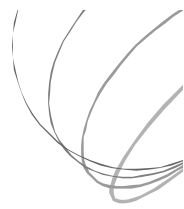
## Legality

34. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Depute Chief Executive and Director of Finance 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.
35. Following consideration of a report on Investments in Tobacco Stocks in March 2009 there was some disquiet amongst members in relation to the sizeable number of shares in tobacco stocks within the Local Government Pension Scheme, Common Good Fund and Burial Grounds Commutation Fund. Officers correctly advised members that the council is in a fiduciary position in relation to the administration of the Pension Fund and, as such, must treat the interests of the beneficiaries as their paramount consideration in relation to any investment. Any form of stock exclusion in the investment portfolio, on ethical or other grounds, is not allowable as it may compromise the security of the interests of the beneficiaries. Any such decision to exclude stocks would therefore be considered unlawful. The council sought Counsel's opinion on this matter which confirmed that the initial advice by officers to members was correct. The Monitoring Officer exercised her statutory role and the members were persuaded not to follow a course of action which would have been illegal.
36. The costs of the rates relating to the eleven new schools built under the private partnership programme were £0.754m greater than the level anticipated by the council for 2008/09 and will prove an ongoing financial burden in future years. The rate levels upon which the council based the budgets and financial projections were advised by external consultants. The council are currently considering the potential options available to them in relation to the advice provided by the consultant.

## Financial reporting outlook

### IFRS adoption

37. Local government will move from UK Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS this should assist in the transition. Indeed, next year, councils will be expected to account for PFI projects on an IFRS basis. But it is important that the council starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10.
38. This new accounting regime will pose significant challenges requiring revisions to accounting policies, changes in the format of the financial statements and systems and a number of additional disclosures in the Annual Accounts. A project plan will be prepared which will identify workstreams to which



individuals can be assigned. The council, along with most other Scottish local authorities, has engaged CIPFA and PWC to provide technical advice and support throughout the transition process.

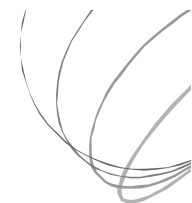
39. One issue that will need to be addressed is the development of clear guidance to organisations included within the group accounts on the timing of IFRS introduction and the expected impact on their financial statements or consolidation processes. This is particularly relevant to the Police and Fire Joint Boards.

## **Pension funds**

40. The introduction of the IFRS based accounting code of practice in 2010/11 is likely to require separate pension fund reports and accounts, something also supported by LASAAC. Although it is unlikely pension funds will be separate audit appointments (as they are not statutory bodies in their own right) it may be necessary for us to treat them separately. This is something we will be discussing with the CIPFA Directors of Finance Group.

## **Carbon trading commitment**

41. From April 2010 a new and complex system for charging for carbon emissions will be introduced by the EU. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions.
42. The council have produced a Carbon Management Plan 2009-2012 which presents the scope, timescales, targets and actions over this period. The Plan recognises that the achievement of targets will require a total investment of £3.615m (based on all the projects being approved) and identifies potential cost savings of £6.05m associated with these projects. Each action requiring capital investment will undergo a business case and option appraisal to assess the viability and affordability of the actions and the knock on effect on carbon emission levels. This will be challenging in the current economic climate.



# Use of resources

## Financial results

43. In 2008/09, The Highland Council spent £877 million on the provision of public services with £804 million being incurred on revenue services and £73 million on capital. The council's net operating expenditure in 2008/09 was £587 million. This was met by central government, and local taxation together totalling £546 million, resulting in a shortfall of £40.5 million, 6.9% of the net expenditure for the year prior to adjustments. After local and statutory adjustments to remove the effect of capital and retirement costs the general fund reported a deficit of £0.7 million for 2008/09.
44. The budget set for 2008/09 was based on a Band D council tax level of £1,163. The council kept budgets under close review and the net revenue outturn for 2008/09 was £5 million (0.9%) below budget, mainly resulting from a variety of smaller underspends across services, the most significant being in Non Housing Property Services (who ended the year underspent by £1.963 million as a result of increased income). The saving was partly offset by an increase of £3 million in the provision for Caithness Heat and Power Ltd. and by the cost of implementing the Single Status agreement which was £1 million more than anticipated.

## Reserves and balances

45. Exhibit 2 shows the balance in the council's funds at 31 March 2009 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 fixed assets. At 31 March 2009, the council had total funds of £65.9 million, a decrease of £1.1 million on the previous year.

### Exhibit 2

#### Reserves

Description	31 March 2008 £ Million	31 March 2009 £ Million
General Fund	29.6	28.9
Housing Revenue Account	8.8	8.8
Repair and Renewal Fund	1.4	1.3
Capital Fund	26.5	25.8



Description	31 March 2008 £ Million	31 March 2009 £ Million
Insurance Fund	0.7	1.1
	<b>67.0</b>	<b>65.9</b>

46. The general fund decreased by £0.7 million during the year to a balance of £28.9 million which equates to 4.9% of the council's net operating expenditure. Of this balance £16 million has been earmarked for specific purposes: devolved education management balances held by individual schools, IT investment, and Caithness Heat and Power. This leaves an unallocated balance of £13 million, which is less than the council's policy to maintain free reserves of up to 3% of the revenue budget (£16.1 million in 2008/09) to cope with risks. The council are currently reviewing the reserves profile but believe that the high level of earmarked reserves against future expenditure will offer protection to the non-earmarked general fund balance in the coming years.

**Key Risk Area 4**

## Housing Revenue Account

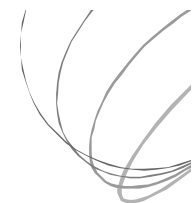
47. The Housing Revenue Account Balance for the year showed a surplus of £2.5 million on HRA services. Last year we highlighted the increase in rent arrears from £3 million in 2006/07 to £3.4 million in 2007/08 as a key risk area in our report to members. Although the pace of increase reduced, rent arrears rose to £3.5 million at the year end 2008/09. An action plan is in place to tackle this issue which includes tightening of rent arrears procedures and introduction of a Former Tenants Arrears Policy. This, along with additional staff resource and more effective monitoring has shown some improvement in the rent arrears position at the end of quarter 1 in 2009/10.

## Group balances and going concern

48. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £177 million, mainly because of pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

49. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Northern Joint Police Board, Highland and Islands Fire Board and Highland and Western Isles Valuation Joint Board) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £329.1 million, with the council's share based on the agreed requisition split being £258.8 million.





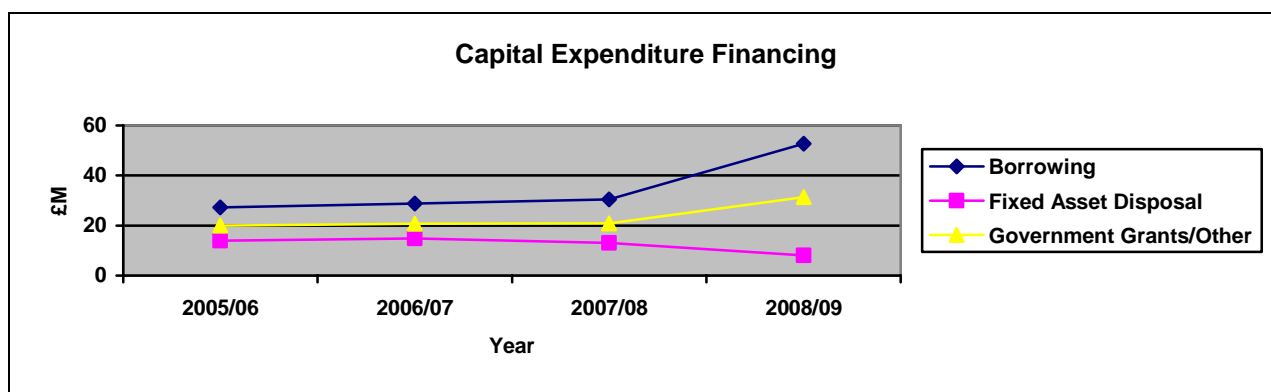
## Capital performance 2008/09

50. The council's prudential indicators for 2008/09 were set in February 2008. Capital expenditure in 2008/09 totalled £73.3 million, an increase of £37.4 million from 2007/08 and £5.7 million over budget. The reason for the budget over spend is the change in the acquisition of vehicles and plant from operational lease arrangements to outright purchase.
51. The trend in capital investment and sources of funds is reflected in exhibit 3.

### Exhibit 3

#### Sources of finance for capital expenditure 2004-09

	2005/06 £M	2006/07 £M	2007/08 £M	2008/09 £M
<b>Borrowing</b>	27.3	28.8	30.4	52.7
<b>Fixed Asset Disposal</b>	14.0	14.9	13.1	8.1
<b>Government Grants/Other</b>	19.9	20.7	20.9	31.3
<b>Total</b>	<b>61.2</b>	<b>64.4</b>	<b>64.4</b>	<b>92.1</b>



52. The world's financial markets are experiencing unprecedented turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring and it is increasingly difficult to forecast interest rate movements as the balance between preventing recession and managing inflation is sought. It is also likely that capital receipts will be less than forecast for the medium to long term. This means that the council will have to consider alternative sources of capital funding or reduce capital budgets. A full review of the capital programme is currently underway and this will look at these issues alongside the outturn for the year.



## Treasury management

53. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
54. As at 31 March 2009, the council held temporary investments totalling £19.2 million. We received specific representation from the Director of Finance that, given the extent of the council balances, he considered this to be a reasonable level for temporary investments. We note that the council has significantly reduced its temporary investments which stood at £47.7 million as at 31 March 2008.
55. The current economic climate means that interest rates on investments are low. The effect of this, along with the reduction in temporary investments, is that the council received £3.9 million in investment income this year compared with £5.1 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates. The council's average cost of borrowing over the year was 4.89% compared with 5.31% in 2007/08.
56. During 2008/09 the council prematurely repaid some of its long term loans to take advantage of market conditions. As a result the profile of the council's loan debt has changed with an increase in the percentage of short term loans. Short term borrowing (net of investments) for 2008/09 was 8.7% of total loan debt, still well within the 25% limit required by the council's Treasury Management policy.

## Pension funds

57. The council is responsible for the management and administration of one pension fund: The Highland Council Pension Fund. The Pension Fund's investments are all managed externally. The value of the investment assets are illustrated in exhibit 4.

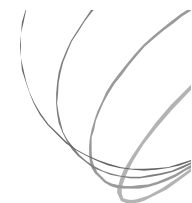
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### Exhibit 4

#### Pension Fund Investments

	31/03/06	31/03/07	31/03/08	31/03/09
	£000	£000	£000	£000
The Highland Council Pension Fund	738.8	818.3	797.7	621.6

58. Total investment value increased during 2006/07 but has since declined mainly due to the global economic downturn. There have been significant movements in share prices particularly in the

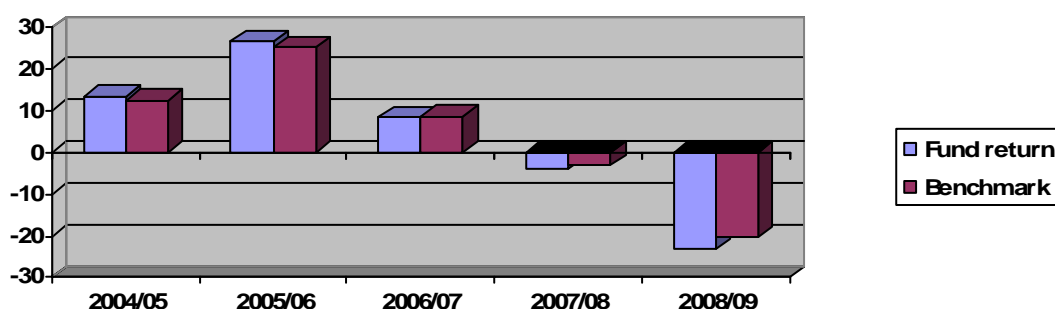


banking sector. This affects the investment asset valuation, but the dynamic nature of the current market does not lend itself to a reliable long term estimate of the value of the assets.

59. In 2008/09, the fund returned -23.2% compared to a benchmark of -20.3%. Exhibit 5 shows the negative performance of the fund over the last three years.

## Exhibit 5

### The Highland Council Pension Fund – fund and benchmark return 2004 – 2008



60. The long term impact of these fluctuations will be monitored on an ongoing basis by the council. The effect on the asset values of the pension fund and the future outlook for employers' contributions was assessed at the triennial valuation of the pension fund. The result of the valuation is an increase in employers' contribution for 2009/10 to 275% and for the years 2010/11 and 2011/12 to 290%.

## Financial planning

61. The council continues to face financial pressures in 2009/10. The economic downturn means a slowdown in housing and other developments which not only leads to a reduction in fee income for the Planning and Development Service but also has an impact on the growth in council tax income. There is also the potential for a drop in income collection levels and a greater demand for some council services. Increases in fuel and energy costs also add pressure to the council's budget.
62. The council is party to the concordat with the Scottish Government which means, amongst other things, that council tax will not be increased in the current year, with the council receiving some additional grant funding to compensate for freezing council tax levels. However the council has also had to look at other sources of income and reductions in expenditure to balance its budget. Services were asked to develop savings within their budgets for 2009/10 achieving an average saving of 2.9%.
63. The Scottish Government has made it clear that public expenditure will be constrained for the medium term. To improve the financial planning process the council has introduced multi-year budgeting which includes both 2009/10 and 2010/11. Services have also been asked to look beyond the next two years and develop longer-term savings.



64. For the period 2008/09 to 2010/11 the Scottish Government set an efficiency savings target of 2% across all areas of the public sector. The council's assumed share of this target, based on its share of total estimated expenditure across Scottish local authorities, is £8 million for each of the three years. The council met this target in 2008/09 with efficiency savings of £8.2 million achieved.
65. For 2009/10 the council aims to achieve efficiency savings through a combination of specific efficiency proposals contained within the revenue budget plus further efficiencies arising from ongoing projects. In his 2009 UK Budget report the Chancellor announced an additional efficiency target of £5 billion for 2010/11. At this stage it is not clear how this will impact on the existing 2% target already set by the Scottish Government, but it will add further pressure to the council's budget for 2010/11.

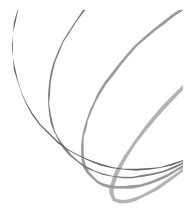
## Budgetary Control

66. The pressures arising from the current economic climate put added emphasis on the need for robust procedures to ensure spending is kept within budget. The council has sound budgetary control systems in place and monitoring reports for both revenue and capital budgets are submitted to Senior Management Team and service committees on a frequent basis.
67. A report to the Housing and Social Work Committee for the period to 30 June 2009 identified a projected overspend of £3.4 million in the social work budget for 2009/10 and advised that action was being taken to recover the overspend. A further report to the Committee in September 2009 gave details of the budget recovery plan and the actions taken to curtail expenditure which will extend over the current financial year. We will continue to monitor the situation as part of our audit.

**Key Risk Area 5**

## Asset Management

68. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Effective management benefits service delivery by making council buildings work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the council's carbon footprint.
69. In November 2007 the council approved its Corporate Asset Management Plan which set out the principles and benefits of effective asset management. It included an action plan to embed asset management into the council's forward planning process. In August 2008, an asset management team was formed and the profile of asset management further enhanced through its inclusion as a key topic in the council's corporate improvement programme.
70. In May 2009, the Accounts Commission published the report *Asset Management in Local Government*. The study found that strategic asset management was not well developed in most



councils. For Scottish councils as a whole, 27% of all properties were in poor condition and 23% were not suitable for the services being delivered from them. The report noted that Highland Council's asset management performance was below average with 42% of its properties in poor condition and 36% not suitable for current use. The current situation shows that there has been an improvement in the proportion of the properties in poor condition (currently 31%) but the proportion not suitable for current use remains at 36%.

71. The report included ten key recommendations to help councils improve their asset management arrangements. The work at the council has been closely aligned with the key messages and recommendations of this report and recent council reports indicate that there has been progress in important areas of asset management planning including rationalisation of property and accommodation, capturing property asset data and capital planning review. A timetable has been prepared and updates against this will go to Resources Committee every six months.

## Procurement

72. Local councils spend significant sums of money annually on purchasing goods and services and as part of the efficient government initiative, the Scottish Government anticipated that scope existed for significant financial savings through improved procurement procedures and practices. The McClelland report on procurement confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.
73. In response to the McClelland report the Scottish Government introduced the Public Procurement Reform Programme in April 2006. In July 2009 Audit Scotland reported the extent to which the Programme had progressed nationally and, while concluding that some significant steps had been made, highlighted that more work was required before the Programme could achieve its full potential. In particular progress has been slower than planned and further savings can be made through increased collaboration and better management,
74. Audit Scotland recently surveyed Scottish councils to establish the nature of information held on procurement processes. Questions also sought information on some key procurement statistics as well as establishing if individual councils had plans to implement the key recommendations from the McClelland report.
75. The information provided by The Highland Council indicated good awareness of the issues and importance around procurement and an advanced procurement plan (as set out by McClelland), with the aim of enhancing performance, has been developed. The profile of procurement is raised by its inclusion as a key theme in the corporate improvement programme. To further improve procurement a review of the function is planned, formal training has been developed for implementation in 2009/10,



supplier development roadshows are being developed and new reporting arrangements to Members are being implemented.

## Managing People

76. The council has an established framework for a co-ordinated, corporate approach to workforce planning and staff development through the implementation of its workforce management plan. The last staff survey was undertaken in late 2007 and some issues highlighted by staff resulted in the identification of five corporate improvement themes – communication, personal development/training pay, terms and conditions and working arrangements, equipment and environment and a general theme which included staff morale and motivation. These themes were incorporated into an action plan and monitored by the Employee Survey Reference Group which has representatives from all Services. Staff have been given a formal update on the progress made against the action plan and a further staff survey will be carried out in February 2010.
77. The new pay scheme arising from the job evaluation (as part of modernising employment) was brought in at February 2009. The harmonisation of pay and conditions, to implement the council's single status agreement, has taken longer due to the extensive negotiations and discussions with the trade unions. It is proposed that offer letters will be issued to employees early next year. Appeals from the original evaluation of posts amounts to some 2,000 and it is anticipated that the appeals procedure may take over a year to deal with each case. Given the volume of outstanding appeals staff morale may be adversely affected. The council propose to carry out a staff survey in February 2010 which will assist in obtaining the views of staff and allow measures to be put in place to deal with these.
78. The council had 1,600 equal pay cases outstanding at the end of March 2009 and has made a provision in the annual accounts to reflect this. The implementation of the single status agreement should assist in reducing the risk of further claims.

## ICT

79. The council makes good use of ICT to support and deliver services. It has a strategy for the future development of ICT that is clearly linked to the council's objectives and restructuring.
80. The council's corporate improvement programme includes an information management project. Besides this specific project, the other projects contained in the programme (such as the asset management project and the human resources project) also have a significant technology element.



## **Information handling and security**

81. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
82. We carried out a review of information handling and security and we found elements of good practice, for example, the focus on information management as one of the corporate improvement projects. Furthermore, the corporate and schools' data networking infrastructure has good perimeter defenses against intrusion.
83. There is however a need to enhance the profile of information security by improving the awareness amongst all staff at all levels. Information assets held should be catalogued so that appropriate security measures can be taken depending on the significance and sensitivity of the information. In addition, information security procedures which have been developed should be implemented and monitored.

### ***Key Risk Area 6***

84. Earlier this year two laptops containing personal and sensitive data were stolen. An investigation followed which was reported to the Information Commissioner and led to the publication of an undertaking under the Data Protection Act 1998 by the council's Chief Executive. This undertaking included encryption of portable and mobile devices and taking of appropriate physical and other measures to ensure that personal data is protected against unlawful access. High risk devices (in terms of data protection) have now been encrypted and staff awareness of the issue of security has been raised through greater publicity.

## **ICT reprocurement project**

85. The council's PFI contract with Fujitsu Services for Managed ICT services is coming to the end of its term. Currently, the Council is in the last phase (final invitation to tender) of arranging a new contract, using the Competitive Dialogue procedure for the services that will be delivered subsequent to the expiration of the current contract. Additionally the council has decided to bring curriculum computing, which is presently delivered by an in-house team, within the scope of the procurement.
86. We have maintained a watching brief on this project and have commented on a number of issues and concerns earlier in the process and reported these to the relevant officers..



## Electronic personnel system

87. Progress on the agreed actions in our report on the Electronic Personnel System's ICT controls, issued in August 2008 and reported in our 'Report to Members' last year was superseded by the initiation of the HR improvement project as part of the Corporate Improvement Programme. The findings of our report will impact on the project and should be communicated to the project team so they can be taken into account at an early stage.

**Key Risk Area 7**

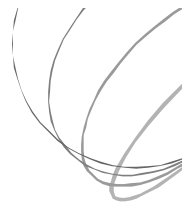
## Oracle financial management system ICT controls

88. The council's financial management system Oracle Financials is generally a well managed system. System documentation is in place and procedures to set-up users and privileges are well defined.
89. There are some areas in which improvements can be made: audit routines (to provide more detail on how and who is using the software) which have been designed for the system are not used routinely, and work carried out by those users that have administrative access to both the Oracle and Pecos procurement system (a potential conflict of interest) should be monitored.

## Shared Services

90. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. They recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency. The council are involved in a number of projects and initiatives with third parties and other local councils, including Pathfinder North which is a high value (£70m) contract to implement high-speed future-proof broadband networks across the Highlands and Islands local authorities. Progress on this contract is behind schedule but is being monitored by a Project Board which includes all partner authorities with regular updates being made to Highland Council members.
91. The Scottish Government awarded seven Councils in the North of Scotland (NOSLA) a grant to carry out a feasibility study into Shared Services for Revenues and Benefits. This has been completed and further work has been identified for consideration by the Project Board. Members recently approved support in principle to the participation of the council in the NOSLA implementation project. A bid is being submitted to the Scottish Government seeking that the project be promoted as a national pathfinder and for the Government to provide financial support for the detailed design and implementation at the rate of 75%. We will continue to monitor the progress in relation to the NOSLA Shared Services for revenues and benefits.





## Outlook

92. Clearly we are in a period of reduced economic growth and the tightening constraint in public sector expenditure has big implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.



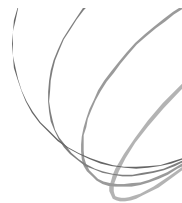
# Governance and accountability

## Introduction

93. An effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting as a key element of public accountability. It clearly sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its presentation of the council's strengths, weaknesses and challenges for the future.

## Structure and policies

94. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government* and have a Local Code of Corporate Governance in place. Whilst the council are satisfied that governance arrangements are operating effectively there are a number of issues outstanding from 2008/09 which include completing a review of the Employee Code of Conduct, developing the Recruitment Strategy and completing the review of health and safety structures within the Council that have been carried forward for completion in 2009/10. Attention has also been drawn to the need to strengthen arrangements in relation to the policy and administration of Common Good Funds and to ensure more robust compliance with the council's Contract Standing Orders, both of which were identified by internal audit in the course of their work. We will monitor the progress made by the Council in completing the outstanding issues and on fulfilling the objectives incorporated in the 2009/10 Code.
95. 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 Audit & Scrutiny Committee's remit includes overseeing risk management and dealing with matters referred to the committee by the council for scrutiny purposes in addition to considering the plans and work of internal and external audit. The committee is well attended and in overall terms its remit and working practices are in accordance with the good practice principles. For example, the committee:
- is a formally constituted committee with clear terms of reference which reports directly to council and usually meets in public.
  - has a chair who is not a member of the administration.



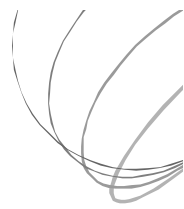
- has membership in line with the political balance of the council and there is regular attendance by appropriate senior officers of the council.
- considers internal and external audit plans and respective annual reports.
- reviews the audit certificate and considers matters arising from the audit of the annual accounts.

## Roles and relationships

96. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The council has embraced this and has offered a comprehensive range of training to members since 2007. Personal Development Plans have been agreed for some members and the focus now is on getting all members to sign up to this. This will further enhance the training opportunities for members with a more tailored approach to specific needs and will assist officers in the challenge of providing appropriate and timely training.

## Partnership working and community engagement

97. The council shows evidence of good partnership working. Community planning structures are well developed at the strategic and local level with appropriate political, official and community representation on each. Many community planning partnerships (CPP) have worked effectively to develop the second single outcome agreement, but Highland community planning partners were involved and jointly committed to the first Single Outcome Agreement (SOA) which represented a real milestone for effective partnership working. The community plan is the keystone of the council's strategic planning framework. The SOA is viewed as a stepping stone to deliver the priorities set out in the community plan.
98. The Highland Council is a member of the Highlands and Islands Strategic Co-ordinating Group (SCG) which was set up in 1998 to co-ordinate the emergency planning arrangements for public bodies in the Northern Constabulary area. A report by Audit Scotland, *Improving civil contingencies planning*, published in August 2009, provides an independent review of Scotland's preparedness for responding to and recovering from emergencies. In the report the Highlands and Islands SCG is rated second out of the eight SCGs across Scotland in terms of its overall effectiveness with regard to a multi agency response to emergencies.
99. The Highland Council and its community planning partners have adopted the national standards for community engagement. The partnership however recognised that there is a need to manage activity to ensure that community engagement is co-ordinated and effective. Ward forums are a means of consulting on area based issues and thematic forums at the pan-Highland level engage representative community groups. As part of the review of partnership activity for SOA2 there is a



specific commitment to review the best approach to stakeholder and community involvement for seven of the fifteen local outcomes.

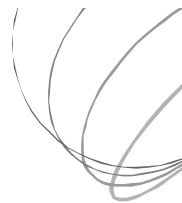
100. The initial risk assessment carried out prior to the commencement of our work on the BV2 pathfinder audit indicated that there was potential good practice in partnership working, community leadership and community engagement. Further work is currently being undertaken to assess the effectiveness of partnership working at both a local and strategic level and examine the impact of ward forums for enhancing engagement with local communities.

## Public performance reporting

101. The council continues to engage with the local community and encourages public involvement in how resources are allocated and spent at a local level. The Ward Forum arrangements are a key part of this process. The latest Public Performance Survey shows the highest satisfaction level with services to date.

## Governance and internal control

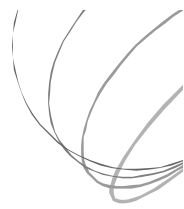
102. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control. The council however recognise the need to further improve and enhance their corporate governance arrangements and we are pleased to note that this will be given priority by the council going forward. Attention has also been drawn to the need to strengthen arrangements in relation to the policy and administration of Common Good Funds and to ensure more robust compliance with the Council's Contract Standing Orders, both of which were identified by internal audit in the course of their work. The council has a process in place to address the improvements that are required and we will review the results of any follow up work performed by internal audit.
103. In addition the council, following our observations, has recognised in the statement that there may be corporate governance issues arising as a result of their investigations into Caithness Heat and Power (ChaP), particularly with its relationships with third parties. Although the results of these investigations have not at that stage been fully concluded or reported we believe that it was prudent to include potential issues in the statement and we will be monitoring the council's response to the issues arising from the report.
104. Internal audit plays a key role in governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system, We formally reviewed the effectiveness of the internal audit function for the 2008/09 audit year and overall concluded that internal audit meets appropriate professional standards, although we did identify areas for improvement. These included the need to make a more realistic provision for



unplanned work, the need to manage time budgets and staff performance effectively and the need for the internal audit staffing establishment to be kept fully resourced.

## Caithness Heat and Power

105. The Highland Council were part of a joint project with Inver House Distillers Ltd. and Pulteneytown Peoples Project which set up a not for profit company in 2004 to provide an innovative district heating system to 500 houses in Wick, called the Caithness Heating and Power company (CHaP). The company failed to deliver this objective and the project has experienced a range of technological, financial and governance problems.
106. In August 2008 the council agreed to take over Caithness Heat and Power (CHaP), appoint members of the council to the Board and consider options for the future operation of the company. To reflect the financial liabilities of CHaP, the financial statements for the year ended 31 March 2009 include a provision of £6.9 million which reflected £4 million for financial guarantees in favour of the Clydesdale Bank and £2.9 million for the possible repayment of funding from the Energy Savings Trust if funding conditions are not met.
107. The council's costs incurred on the project to date are detailed below:
- sum committed by council in Nov 2005 - £1.600 million
  - total working capital advances loaned to CHaP to-date - £3.550 million (this could rise to a maximum of £4.970 million as agreed by council)
  - related in-house development and procurement costs - £0.300 million (maximum agreed by council)
108. Potential future costs of the project are uncertain until it is decided how the project is to be taken forward. To date the council has obtained expressions of interest from a number of companies who may be interested in taking over the generation of power to the properties covered by the project. It is hoped that a decision will be taken on the future of the project early in 2010. It is estimated however that in the worst case if the council has to reinstate more traditional methods of heat generation to the properties total costs over the lifetime of the project could reach in the region of £16 million.
109. The council has acknowledged that the risks arising from CHaP are wider than purely financial. Internal Audit has carried out an investigation into the project covering the period from inception of the project until August 2008, and is in the process of compiling a report for presentation to members on their findings. The Chief Executive and Head of Internal Audit have shared a working draft of the report with us and have kept us up-to-date with progress on the investigations. The indications arising from the initial report are that governance arrangements covering the project contained



significant weaknesses and this, combined with problems relating to the technology, resulted in the failure of CHaP to achieve its objective.

110. The internal audit report on CHaP will be presented to the Highland Council in December 2009. The findings reported will include weaknesses in the following areas:

- formal project appraisal, business planning, governance arrangements, and a comprehensive statement of resource implications
- technological and financial risks were not adequately reported to the council and did not feature in the council's risk register
- issues with compliance with the council's scheme of delegation and contract standing orders
- whether concerns raised by senior officers over the governance arrangements for the project were adequately addressed.

111. The Head of Internal Audit is now working on the conclusions of the report and production of an action plan. We would expect the conclusions and action plan to cover:

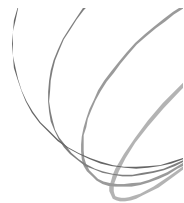
- specific actions for conclusion of the CHaP project covering the period of inception to August 2008
- the action taken/ to be taken by the council to ensure that similar issues have not arisen on similar projects where the council has an interest covered by 'Code of guidance on funding external bodies and following the public pound'
- the action taken/ to be taken by the council to ensure that lessons have been learnt and that similar issues could not arise in the future.

**Key Risk Area 8**

## Outlook

112. Delivery of the SOAs continue to present significant challenges and the Accounts Commission acknowledges that SOAs are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes and this is complemented by the work on BV2 looking at progress on the outcomes. In 2010/11, we expect to see further developments in clarifying accountability, governance and public performance reporting. In addition we shall increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes.

113. Governance arrangements in respect of CHaP have been poor in the early stages of the project and, at the least, up to the time that council assumed control of the company. The council faces significant challenges, notwithstanding the potential financial implications, in demonstrating that arrangements in



respect of other joint or third party ventures are sound. Members will require assurances that the weaknesses arising in relation to the whole of the CHaP project will not or have not occurred in other council ventures.



# Performance management and improvement

## Introduction

114. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation.
115. Highland Council's performance management framework is sound and integrated with service planning and delivery. The council is able to demonstrate improved outcomes for citizens and more effective and efficient service in a number of areas through the Corporate Performance Report. A further report is due to be presented to the Council in October showing the outcome against the Single Outcome Agreement 1 targets and this shows a positive movement for many of the indicators monitored, although the recession has had an impact on performance.

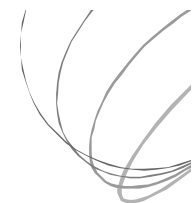
## Performance management

116. The council is continually developing its performance management system and is currently in the later stages of procuring an electronic system to facilitate the recording and reporting of performance and to integrate this with the risks identified for the council.
117. As performance management is an area which is being considered in detail as part of the Best Value 2 Pathfinder work we will report in performance management and improvement in more detail at the conclusion of the annual audit.

## Statutory performance indicators

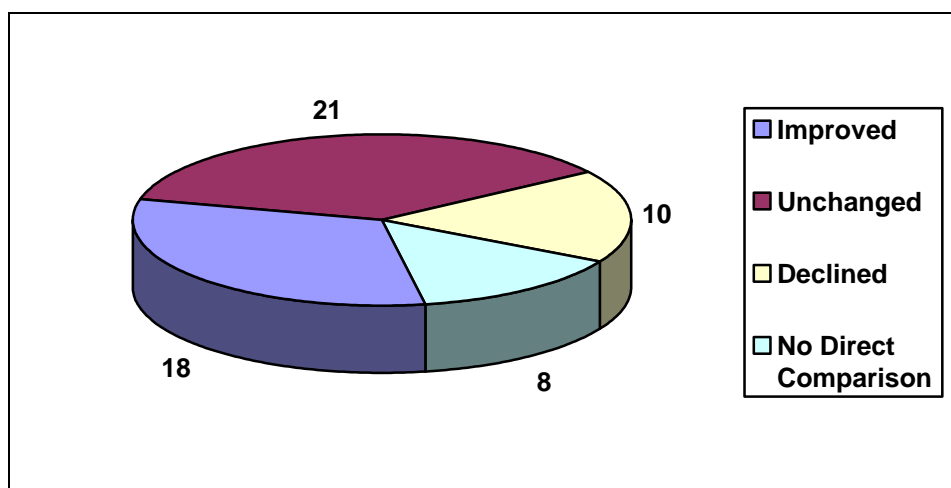
118. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). A total of 57 SPIs were reported in September 2009. Chart 2 below highlights how performance overall compares with that reported in 2007/08. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. In overall terms. Exhibit 6 confirms that the council has made improvement in some areas.





## Exhibit 6

### Improvements demonstrated by SPIs (Total 57 indicators)



119. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was good. No indicators were classified as unreliable.

## Equality and Diversity

120. The council is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. Equality issues are explicit in service plans and policies are monitored and screened for relevance on a quarterly basis. Regular performance and feedback is given to the management team to ensure that equalities are considered in all aspects of the council's work. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*.

121. This study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils' lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.

122. The council have responded to the report by presenting the key messages and recommendations arising from it to the Resources Committee in December 2008 along with a revised version of their Race Equality Scheme. They have also shared the report and its recommendations with local Community Planning Partners.

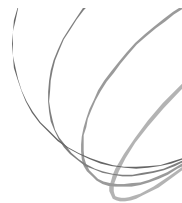


## Efficiency

123. The council approved an initial Efficiency Strategy in 2005 and has since continued to identify and develop various efficiency proposals. A further significant development in the council's efficiency strategy took place in 2008/09. The Shared Services Diagnostic Project ended in August 2008 and resulted in the council deciding that nine opportunities for improvement and efficiency should be progressed as improvement projects. These projects are contained in The Corporate Improvement Programme which has a central role in the council's efficiency strategy.
124. Some of the projects, for example procurement and asset management, were in place before the development of the Corporate Improvement Programme and were able to deliver efficiencies in 2008/09. For most of the projects it is anticipated that efficiencies will be generated from 2010/11 onwards.
125. Tackling climate change and making the best use of resources require the efficient use of energy. In 2008, we published a report on this subject: *Improving Energy Efficiency*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases.
126. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour. The Highland Council has a plan and mature systems for reducing energy use in its buildings and it has achieved the Carbon Trust Standard and other energy awards. It has a recently approved carbon management plan and internal waste minimisation policies and green travel planning on several sites. The council is currently participating in Carbon Management Plus, a pilot programme to develop carbon reduction plans further with the support of the Carbon Trust and in readiness for the carbon reduction commitment..

## Risk Management

127. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks to support decision making and contribute to performance.
128. The council has a structured approach to managing risk which includes the operation of a Risk Management Group representing all council services. The council's Risk Management Strategy defines the roles and responsibilities of both members and officials throughout the authority.
129. The Senior Management Team is responsible for ensuring that risk management is embedded in the council's culture. Their role includes identifying and reviewing risks and giving advice to members on



the risk management implications of decisions. They also have a role in ensuring that each service maintains its own risk register and that effective risk management procedures are in place.

130. Every six months the Audit & Scrutiny Committee carries out a risk management review. The most recent review took place in June 2009 when the committee received a report on progress in managing existing corporate and cross cutting risks. A new risk relating to the impact of climate change was identified for inclusion in the risk register. Risks assessed as being above the tolerance criteria are managed by the development of action plans which are monitored at service level through the council's quarterly performance review process.

## Outlook

131. We have already mentioned the importance of developing the governance aspects of the SOA; the performance management aspects are also important. The long term and complex nature of many of the outcome targets pose a number of challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems The Highland Council have in place to monitor progress and take remedial action.
132. We are currently developing our approach to Best Value 2 by working with five pathfinder councils, one of which is The Highland Council. Part of this approach is to carry out a risk assessment in conjunction with other scrutiny bodies with the overall aim of this approach being to publish a scrutiny plan for each council covering all scrutiny activity over a three year period.



# Appendix A

## External audit reports and audit opinions issued for 2008/09

<b>Title of report or opinion</b>	<b>Date of issue</b>	<b>Date presented to Audit &amp; Scrutiny Committee</b>
Review of Internal Audit	30 June 2009	20 August 2009
Review of information handling and security arrangements	18 September 2009	1 October 2009
Strategic Audit Risk Analysis	27 May 2009	11 June 2009
Internal Controls Assurance	25 September 2009	3 December 2009
Oracle Financial Management System ICT controls	1 July 2009	20 August 2009
Criminal Justice claim certification	29 September 2009	N/A
Report on financial statements to those charged with governance	23 September 2009	3 December 2009
Audit opinion on the 2008/09 financial statements	30 September 2009	3 December 2009
Final Accounts Report	Not yet issued	



# 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	18	<p><b>Reconciliations</b></p> <p>Despite constant assurances the council are still not reconciling the Assessors system with the Non Domestic Rates System.</p> <p><b><i>Risk: The council system may be incomplete and this could have implications for the collection of potential revenue.</i></b></p>	Limited reconciliations have been completed for council tax.	Head of Revenues	December 2009
2	22	<p><b>National Fraud Initiative</b></p> <p>Progress in investigating data matches has been poor to date.</p> <p><b><i>Risk: The council may fail to identify and prevent fraud and corruption.</i></b></p>	<p>Payroll have been very busy with pay modernisation but have given an undertaking that they will investigate all matches by the end of the year.</p> <p>The main focus for Housing has been to implement Direct Debit as a payment option for tenants. They are now focusing on the upgrade to their system. As and when resources permit, the remaining matches will be investigated.</p> <p>The HB/CTB Investigation Team has sifted the matches where it is considered fraud may be in play and these cases are following the standard investigation process. The remaining matches have been passed to the Operations Team for processing. Competing demands and the increased workload which have arisen from the recession has meant that the Operations Team has had to focus resource at processing claims, etc.</p>	Head of Revenues	December 2009



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3	33	<p><b>Common Goods Funds</b></p> <p>There is no separate asset register for common good assets.</p> <p><b>Risk: The council may fail to identify and/or correctly account for assets that belong to the Common Good Funds.</b></p>	This project forms part of the asset management work planned.	Assistant Chief Executive	April 2010
4	46	<p><b>Reserves</b></p> <p>The level of unallocated reserves at the year end is less than 3% of the revenue budget which is the council's preferred level and has been determined using the CIPFA Guidance 'Reserves and Balances in a Local Authority'.</p> <p><b>Risk: The council may have insufficient balances and reserves to meet unexpected contingencies. The risk is exacerbated with the current financial challenges facing the economy.</b></p>	The council are currently reviewing the reserves profile but believe that the high level of earmarked reserves against future expenditure will offer protection to the non-earmarked general fund balance in the coming years.	Director of Finance and Depute Chief Executive	March 2010
5	67	<p><b>Financial Pressures</b></p> <p>Challenging economic conditions will impact on the council's budget.</p> <p><b>Risk: The council budget may not be met.</b></p>	The council are continuing to monitor and report on budget income and expenditure and will promptly address any potential overspends.	Chief Executive / All Directors	Ongoing
6	83	<p><b>Information handling and security</b></p> <p>The profile of information security needs to be enhanced and information security procedures implemented and monitored.</p> <p><b>Risk: The council may fail to meet the statutory requirements relating to the provision and security of information.</b></p>	This will form part of the information strand of the corporate improvement programme.	Assistant Chief Executive	March 2010



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7	87	<p><b>Electronic Personnel System</b></p> <p>There were a number of issues identified in our work last year in relation to the Electronic Personnel System which need to be taken on board as part of the HR Improvement Project.</p> <p><b><i>Risk: The council may fail to consider our findings as part of the process.</i></b></p>	<p>This will form part of the HR strand of the corporate improvement programme.</p>	<p>Assistant Chief Executive</p>	<p>Sept 2010</p>
8	111	<p><b>Caithness Heat and Power</b></p> <p>Governance arrangements in respect of CHaP have been poor.</p> <p><b><i>Risk: Governance arrangements within other areas of the council may also be poor.</i></b></p>	<p>The Head of Internal Audit is producing a report covering the project which will include an action plan covering the</p> <ul style="list-style-type: none"> <li>• specific actions for conclusion of the CHaP project, covering the period of inception to August 2008</li> <li>• the action taken/ to be taken by the council to ensure that similar issues have not arisen on similar projects</li> <li>• the action taken/ to be taken by the council to ensure that lessons have been learnt and that similar issues could not arise in the future.</li> </ul>	<p>Chief Executive</p>	<p>To be agreed following delivery of the IA Report</p>