



Grant Thornton

Highland Council

External Audit Plan for the financial year ending 31 March 2019

Audit and Scrutiny Committee 27 March 2018

Final Audit Plan

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Our audit at a glance



We fulfil our responsibilities per ISAs (UK) and the Audit Scotland Code of Audit Practice throughout our work.



Group materiality is set at £9.375 million (Council only: £9.154 million). This is approximately 1.2% of gross expenditure, based on 2017/18 audited information and is consistent with prior year approach.



Significant audit risks are: management override of controls and revenue recognition as set out in International Auditing Standards (ISAs UK), expenditure recognition as set out in Practice Note 10; and the valuation of property, plant and equipment.

An audit underpinned by quality and adding value to you



Performance materiality is set at 65% of materiality and trivial is set at £250,000, in accordance with the Audit Scotland Planning Guidance. Our performance materiality is set on this basis reflecting on audit adjustments in prior year.



Highland Council face significant financial and operational challenges. The Corporate Plan, revised in March 2019, identified a budget gap of £60.3 million between 2019/20 and 2021/22. The Council's change programme: "A Sustainable Highland" aims to support the Council's strategic transformation to deliver a financial sustainable and effective Council. This will be a key area of our wider scope audit work and within the scope of the Best Value Assurance work.



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. This covers financial management, financial sustainability, value for money and governance arrangements. Our wider scope audit work will compliment and be undertaken in conjunction with the Best Value Assurance Report (BVAR) on the Council, which will be considered by the Accounts Commission in November 2019.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

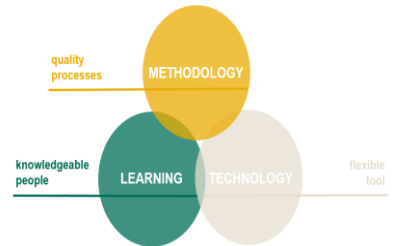
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

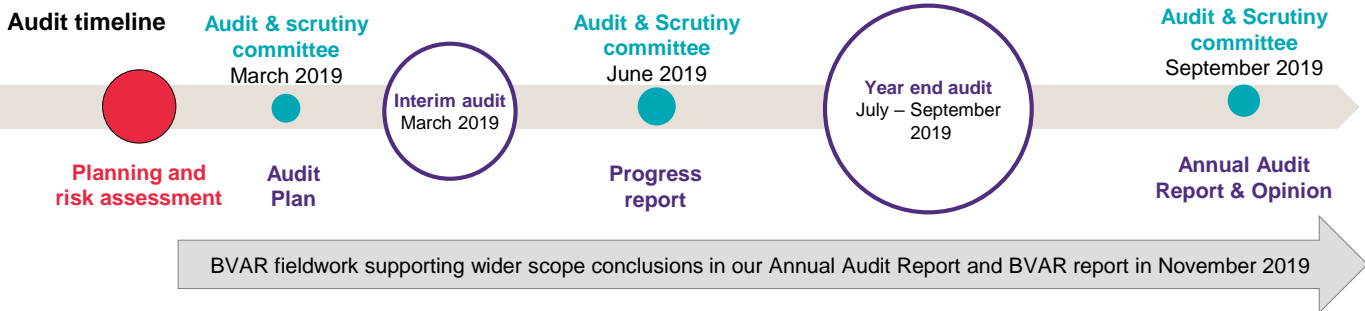
Adding value

Our aim is to add value to the Council through our external audit work. This will be delivered through delivering a high quality audit. Specifically for Highland Council we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver more **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with Senior Officers and the Audit and Scrutiny Committee, identifying particular areas for consideration. We will pro-actively work with Senior Officers during the year to discuss any new or emerging matters. See example **Technical Updates** included as an appendix to the plan.



2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of March 2019.
- Submission of progress reports to Audit Scotland on a quarterly basis.
- National Fraud Initiative - completed Auditor questionnaire (30 June 2019).
- Current issues returns to Audit Scotland (21 January 2019, 22 March 2019 and 18 Oct 2019).
- Submission of fraud cases to Audit Scotland on a quarterly basis.
- Submission of annual audit report and audited accounts (deadline 30 September 2019).
- Contribution to Audit Scotland's performance Audit's during the year.
- Submission of Housing Benefits subsidy claim to DWP (November 2019)

Planned Audit Scotland publications which may be relevant to Highland Council

- Local government in Scotland: Challenges and performance 2019 (To be published spring 2019).
- Supporting Scotland's Economic growth (Winter 2018)
- Early Learning and childcare (Summer 2019)
- Equal pay in Scottish Councils (Spring 2019)
- Self-directed support: 2017 progress report (Spring 2019)

External Audit deliverables for 2018/19 – Audit and Scrutiny Committee

- External Audit Plan (this document).
- Interim report / Progress paper (June 2019).
- Annual Report to those Charged with Governance and the Controller of Audit (September 2019).
- Audit opinion & Letter of representation (September 2019).

Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Group and Council Financial Statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code
- have been properly prepared in accordance with International Financial Reporting standards as adopted by the European Union, as interpreted and adapted by the 2018/19 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- The information contained within Management Commentary and Annual Governance Statement is consistent with the financial statements and prepared in accordance with applicable guidance.
- The audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) regulations 2014.

Basis for materiality

We determine financial statement materiality based on a proportion of the total gross expenditure. This approach is consistent with our prior year materiality determination. We have determined materiality to be **£9.375 million** for the Group (Consolidated accounts for the Council, Common Good funds, High Life Highland and associates: HITRANS and the Valuation Joint Board). Council only materiality is £9.154 million. Our materiality equates to approximately **1.2%** of your prior year total gross expenditure for the year. This is based on our judgement and our consideration of what is material to the user of the account based on understanding of the Council.

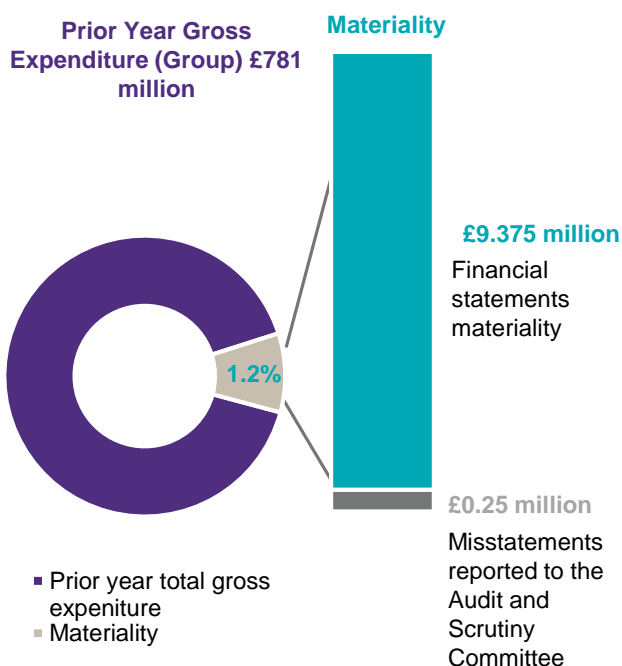
We will update our materiality upon receipt of your draft 2018/19 financial statements. We continue to assess materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2017/18 we have set this for 2018/19 at **65%**. This reflects the fact that there were a number of adjustments to the financial statements in the prior year. Performance materiality determines the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Scrutiny Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. In accordance with Audit Scotland planning guidance the maximum threshold for this balance is **£250,000**.



A risk based audit methodology

This is the third year as external auditors of the Council appointed under the Audit Scotland framework. Highland Council's Programme: Local Voices Highland Choices' 2017-2022, sets out the Council's strategic goals and priorities over the next five years. The programme aims to provide the opportunity for all councillors, local committees and communities to translate these into reality at a local level. In March 2019, the Council refreshed the Corporate Plan to detail the measures and actions to deliver the Council's programme. The focus is to deliver a council that is ambitious, sustainable and connected Highland.

Critical to the delivery of the Council's Programme is delivering a Council that is financially sustainable. The Council's Change programme "A Sustainable Highland", aims to deliver £37.456 million savings over the next three years. To support this a £2.5 million Change Fund has been set aside to support the transformational change required to achieve these savings. The Council recognise that additional revenue will also be required to address the forecast budget gap of £60.3 million and part of the programme of work underway the identification of revenue generating and maximising activities.

Critical to the successful delivery of the Council's programme of work, is continued alignment to the Council's core priorities and vision. During 2018/19 the Council was required to address a budget gap of £11.7 million. Approximately £3.1 million of this being addressed through additional revenue generation and £8.6 million through delivery of savings. While the Council has reported good progress during the year, they continue to operate in a challenging financial context with limited unearmarked or restricted reserves to manage unforeseen financial pressures or overspends. We have incorporated this wider financial context into our audit planning processes and risk assessment.

Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. The only material components of the Group are the Highland Council and High Life Highland. However, the nature and value of High Life Highland's financial transactions do not present a significant risk to the group and therefore our significant risk below are only applicable to the Highland Council.

Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
Risk of fraud in revenue recognition	As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. For annual grant funding we consider this to be well forecast and agreed directly to grant allocation letters. Likewise, for council tax and non-domestic rate income streams, we consider these revenue streams to be well forecast and not inherently at risk of manipulation. For these revenue streams, we therefore rebut the presumed risk of fraud in revenue recognition. We consider the risk to be prevalent in other service income with a focus around the year end transactions and balances where financial performance is subject to greater external scrutiny. Therefore, we focus our testing on cut-off of service income.	<ul style="list-style-type: none"> Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate. Evaluation of the existence of debtor balances held at 31 March 2019. Using our data analytics tools to provide assurance that income recognised is in line with expectation. Consider income cut off procedures and substantive testing over pre and post year end balances to confirm the occurrence of income. A focus on recoverability of balances.
Management override of controls	As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Management override of controls significant risk is present in all entities.	<ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur. Review of the controls over journal entries using our journal analyser tool to focus on higher risk journals. Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. This include assumptions around IAS 19 defined benefit obligations. Reviewing unusual and/or significant transactions that are out with the normal course of business for the entity to understand the rationale for these transactions.

Risk area	Description of risk	Planned response
<p>Fraud in expenditure recognition as set out in Practice Note 10.</p>	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and subject to HR controls and budget monitoring there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on other material non-pay expenditure streams. Council's are required to set a balanced budget for the financial year and therefore performance is focused on outturn position. We therefore consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<ul style="list-style-type: none"> • Perform cut off at year end on pre and post year end transactions and recordings. • Reviewing the completeness of creditors (and expenditure) recognised. • Using data analytics to support our assessment of transactions around the year end. • Walkthrough of the key expenditure controls in place.
<p>Property, plant and equipment valuations</p>	<p>Under the Code of Practice on Local Authority Accounting, the Council is required to hold property, plant and equipment at fair value. For land and buildings this requires assets to be valued to ensure their carrying amount reflects fair value as at the balance sheet date. In accordance with the Code of Practice, the Council undertakes a rolling programme of valuations with asset categories valued on a five yearly cycle. For assets not subject to full revaluation, the Council is required to ensure that the carrying value is not materially different than the value that would be obtained through a formal valuation. Based on the prior year accounts, over £740 million of land and buildings will not have been valued more than four years ago by the balance sheet date. Given the value of the assets there is an increased risk that the carrying value may materially differ from that value obtained through a formal valuation.</p>	<ul style="list-style-type: none"> • Review the work performed by the Council, including any work done by the Council's internal valuations team, to gain assurance over the valuation of PPE at the balance sheet date. • Reviewing the key assumptions used in the valuation approach of PPE to ensure these are reasonable and appropriate. • Target testing of specific valuations where these deviate from expectation to scrutinise and challenge the basis of the valuation • Agreeing the carrying value of assets at the 31 March 2019, to internal valuation reports

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of officer's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We will review officer's assessment of the going concern assumption and evaluate the disclosures in the financial statements, alongside our assessment based on substantive testing and audit procedures.

Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to consider internal audit work throughout the year and maintain an ongoing, open, dialogue with internal audit.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform procedures around IT general controls.
- We will liaise with the Highland Pension Fund to understand the controls in place of pension data and the transfer of this information to the actuary to support the actuarial valuation.
- Perform walkthrough procedures on key controls around identified risk areas including revenue, payroll, non-payroll expenditure and the recognition and valuation of property, plant and equipment.

Wider scope audit

– Audit dimensions and best value

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements.

The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Best Value, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Best Value. Audit Scotland Audit Planning guidance outlines key areas for consideration. Relevant to the Council we will consider the following:

- EU Withdrawal,
- changing landscape for public financial management,
- dependency on key suppliers and
- openness and transparency.



Details included in the appendix; **Areas of wider scope focus 2018/19.**

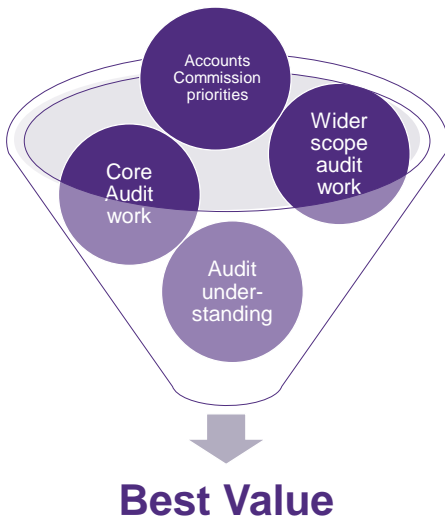
Strategic audit priorities

As part of our best value work, we will consider the five strategic audit priorities agreed by the Accounts Commission. The key areas of focus are:

- Having clear priorities with a focus on outcomes, supported by effective long term planning.
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

We incorporate these audit priorities into our wider scope audit work, informing both the scope of our local audit work and the wider BVAR review.

Wider scope approach



Our wider scope audit work is a **risk based** approach. It is built upon our understanding of the organisation and consideration of:

- Four audit dimensions defined within the Audit Scotland Code of Audit Practice
- Accounts Commission's strategic priorities
- Our core audit work and audit knowledge

We consider each of these areas through our audit planning process. We note that our work is undertaken to both inform, and informed by the BVAR work undertaken during 2018/19.

Best Value Assurance Report (BVAR)

In October 2016, Audit Scotland developed a new approach to auditing best value across Scottish local authorities. Under the new approach, the Controller of Audit will provide a BVAR for each council at least once in a five year period. The Council has been selected for a BVAR report during 2018/19. The BVAR work is undertaken with local audit teams working in conjunction with Audit Scotland's Performance Audit and Best Value team. In practice, this will build upon our wider scope audit work undertaken over the last two years.

The Council's BVAR report is due to be presented to the Accounts Commission in November 2019. Within our annual audit report we will draw out some of the key conclusions emerging from our audit work.

Statutory performance

In line with the Accounts Commission's statutory Performance Information Direction (2015), the Council has a responsibility to publish performance information to allow citizens to gauge their performance comparatively. One of the Accounts Commission's Strategic Audit Priorities is 'reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes'.

We incorporate reporting and accountability through our risk assessment. We consider and report on the suitability of the arrangements in place at the Council for preparing and publishing performance information.

Local Scrutiny

As the Council's appointed auditor, we are responsible for leading the Local Area Network (LAN) to support the coordinated scrutiny at the Council. LANs bring together relevant scrutiny bodies, typically Audit Scotland, Care Inspectorate, Education Scotland and the Scottish Housing Regulator, to share information and intelligence on an ongoing basis and to carry out a Shared Risk Assessment (SRA). The purpose of the SRA is to inform discussions between the LAN and its council and to inform the National Scrutiny Plan (NSP) for local government. For 2018/19, there is no longer a requirement for LANs to produce local scrutiny plans. LANs can produce local outputs if they determine, in consultation with the Council, that this would be useful. The new approach looks to embed a discussion about risks and responses between scrutiny bodies across the year.

Financial sustainability

Financial sustainability

The Highland Council face significant financial challenges over the short to medium term. The Corporate Plan refreshed in 2019, identified a budget gap of £60.3 million between 2019/20 and 2020/21. The Council aims to address this through additional revenue generation as well as the deliver of a programme of savings “A Sustainable Highland”. To support this a £2.5 million Change Fund has been set aside to support the transformational change required to achieve these savings.

As at 31 March 2018, the Council held non-earmarked reserve fund balances of £8.6 million (1.6% of the Council’s revenue budget). This leaves limited capacity for the Council to absorb unforeseen costs or budget overspends or to support strategic investment in savings activity.

Workforce planning

The Corporate Plan recognises the need for the Council to downsize as an organisation and to focus on new ways of delivering services while focusing on improving performance across areas of strategic priority. With limited non-earmarked reserves to support significant investment in service redesign or restructure, it is important that there is a clear and strategic approach to workforce management to maximise the use of the Council’s human resources.

Our response

Wider scope significant risk pinpointed to the Council’s financial sustainability and the significant financial challenges in identifying the required level of savings whilst maintaining or enhancing service performance.

Our wider scope audit work over this area will support our BVAR work. We will review the Council’s financial plans in place and progress in the delivery of “A Sustainable Highland”

Our response

Our significant risk is focused on workforce planning. Delivery of the Board strategic priorities in a sustainable manner will require the efficient and effective use of the Council’s workforce. Our wider scope audit work will assess the progress made by the Council in refreshing its workforce strategy and underlying workforce plans. We will consider how these are aligned to the delivery of the wider strategic objectives of the Council while supporting a sustainable operating mode. Our work will be undertaken in line with our BVAR assurance work.

Financial management

Financial management

The Council’s 2018/19 annual budget identified a budget gap between available finances and planned expenditure of £11.7 million. Approximately £3.1 million of this gap is being addressed through additional revenue generation and £8.6 million through delivery of savings. In addition to the identified savings, the Council face challenges in delivering a breakeven position by the year end. As at December 2018, the Council were forecasting an overspend of £5.5 million against services. This predominantly reflected a £3.1 million overspend against budget for looked after children and additional support needs.

In response, additional budgetary controls have been established including oversight and approval required over recruitment as well as utilising devolved schools management balances to support financial pressures. In addition, Officers are reviewing earmarked reserve to determine if these can be utilised to support the delivery of financial targets in the year.

Our response

Our wider scope audit risk is focused on the risk around financial performance in year and financial management arrangements.

We will consider the arrangements in place to identify and support the delivery of in year savings and how these will be achieved. We will also consider the budget setting and monitoring arrangements and how these support the Council deliver its financial targets.

Governance and transparency

Governance arrangements

The Council continues to review and consider the design and operating effectiveness of governance arrangements in place. During 2018/19, the Audit and Scrutiny Committee is in the process of evaluating its effectiveness including consideration of its membership and size and how it can enhance its scrutiny activity.

Officers have recognised the need to enhance governance and scrutiny arrangements. In addition to the normal service and governance committees and officer meetings, additional scrutiny arrangements are being introduced through:

- A cross member Resources and Improvement Governance Board which meets on a monthly basis
- An officer lead Resources and Improvement Implementation Board which will have a weekly rolling programme of reporting so that each improvement priorities will be considered once a month and support reporting to members.

The Council recognises the strategic importance of the delivery of identified areas for improvement as well as effective management of resources. These new governance arrangements will play a critical role in the oversight and delivery of these.

Our response

We will consider the Council's governance arrangements in place, including the newly established Resources and Improvement Governance Board and how this operates within the existing governance framework. We will also consider any proposed or implemented changes to the Audit and Scrutiny Committee and how these support effective governance and scrutiny.

Our work will also support the work undertaken as part of the Council's BVAR review.

Value for money

Performance management

The Council's Corporate Plan identifies 22 strategic priorities and Council's ambitions over the next three years. Underpinning these are a number of key performance indicators and outcomes.

The Council has recognised that the delivery of the strategy requires a culture of improvement. The Council is currently developing the agreed strategic improvement priorities and targets for approval in May. To support the delivery of these and embed a culture of improvement, is the Highland Improving Performance Programme (HIPP). The Council aim to deliver a sharper focus on improving performance across the Council. A number of mechanisms are being used to facilitate this process including:

- Communication, celebration and learning from strong performance
- Pursuing improvement collaboratively, with a focus on overarching ownership and avoiding silo working
- Utilising performance data to provide both an inward and outward view of the Council's performance
- Embracing peer review, benchmarking and external scrutiny.

Delivering efficient and effective performance is critical for the Council to deliver its strategic priorities.

Our response

We will consider the Council's performance management framework and how this is developed to support the key strategic priorities. We will assess how officers capture and measure performance and outcomes. We will consider the progress made by the Council in embedding a culture of continuous improvement including how it has embraced benchmarking, peer review and external performance assessment to identify areas for improvement.

Our work will also support the work undertaken as part of the Council's BVAR review.

Other areas of assurance

Other responsibilities under the Code of Audit Practice

Under Audit Scotland's Code of Audit Practice we have additional responsibilities associated with our audit. These are summarised below

Area of understanding	Our response
<p>Statutory trading operations (STO's)</p> <p>Highland Council has one significant trading operation (STO); Fishery, Piers and Harbours. In accordance with the Local Government (Scotland) Act (2003), the STO is required to break even over a rolling three year period.</p>	<ul style="list-style-type: none">• We will review officers evaluation of the STO to ensure that it continues to meet the requirements to be classified as an STO.• We will review the STO's financial performance to determine it continues to meets its statutory financial targets.
<p>Highland Charities Trust and Highland Council's Charitable Trusts</p> <p>Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts.</p> <p>As part of our audit work in the current year we will provide an opinion over the Council's registered charities Highland Charities Trust and the Highland Council's Charitable Trusts. As part of our audit planning we have not identified an further audit risks in relation to these audits.</p>	<ul style="list-style-type: none">• We will provide you with an independent audit opinion on the financial statements of the Highland Charities Trust and the Highland Council's Charitable Trusts for the year ended 31 March 2019.
<p>Whole of government accounts and grant claims</p> <p>The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities, NDPBs and the Scottish Government are required to provide an assurance statement on 2018/19 WGA returns for bodies over a prescribed threshold determined by NAO. While we are not informed of the threshold until July 2019, we anticipate that we will be required to provide an assurance statement for the Council for 2018/19. Local government auditors are required to review and report on approved grant claims prepared by local authorities. This includes certification of Housing Benefit claim.</p>	<ul style="list-style-type: none">• We will work with officers to ensure the timely completion and audit inspection of the WGA return and HBCOUNT returns.

Appendices

Key audit deliverables and our team

Fees and independence

Fraud arrangements

Respective responsibilities

Technical updates

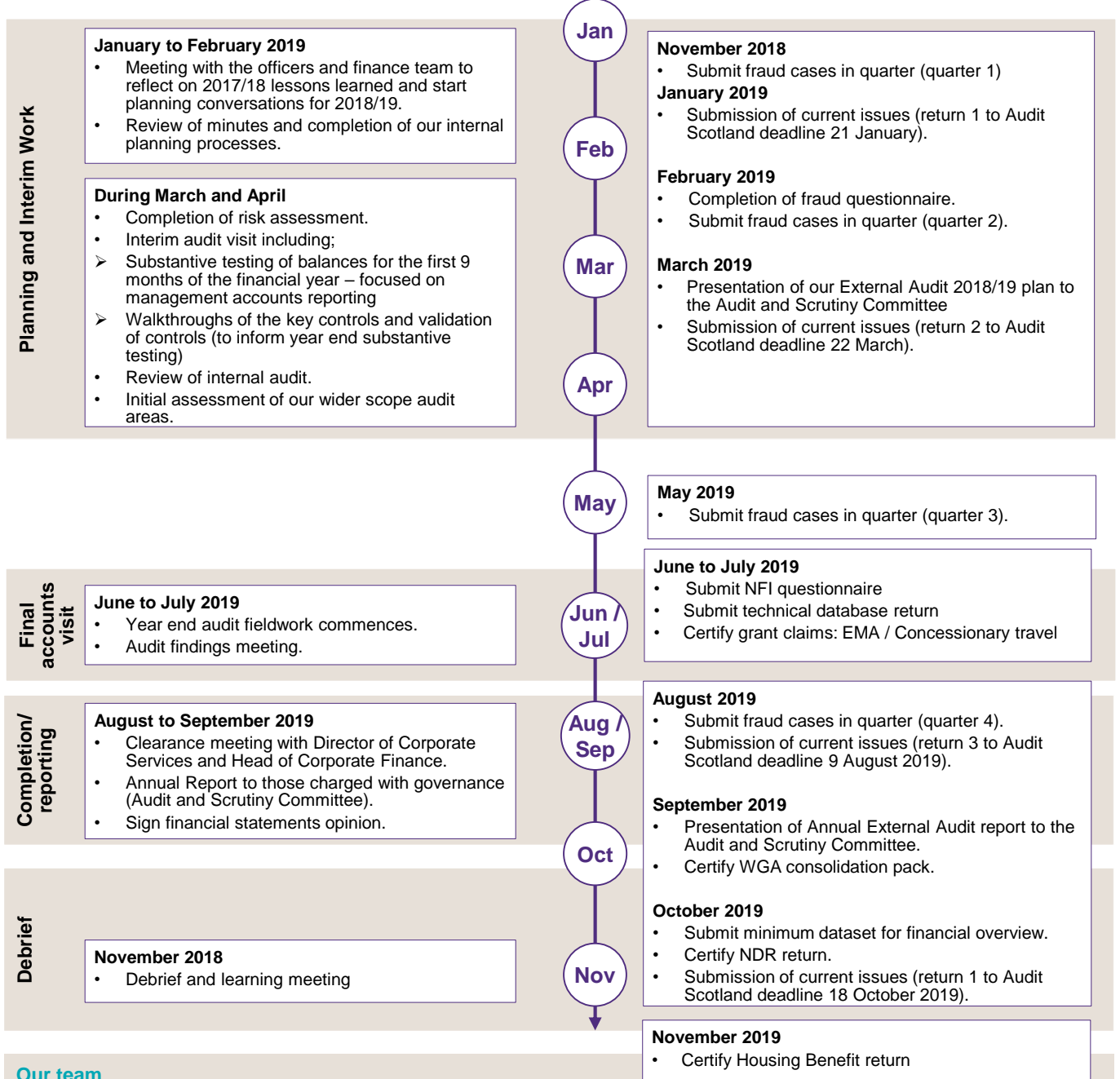
Additional planning considerations of wider scope for 2018/19

Communication of audit matters with those charged with governance

Key audit deliverables and our team

Activity

Key audit deliverables



Our team

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Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	242,450
Pooled Costs	23,510
Contribution to Audit Scotland costs	15,220
Contribution to Performance Audit and Best Value	130,780
2018-19 Fee	411,960

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. The above proposed fee, has been retained at the base fee. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Council's activities will not change significantly from planned
- The fees above exclude the statutory audit fee for Highland Charities Trust and Highland Council Charitable Trusts
- The Council will make available relevant officers and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final).
- Specific balances such valuations of assets are supported by an independent specialist

We have noted in our report areas where potential additional work may be required, such as around the implications of IFRS 9 and 15 accounting standards coming into effect. However, we will review Officer's impact assessment before determining if there is a material impact from this. Where further additional work is required, fees will be agreed with management and reported to the Audit and Scrutiny Committee in our 2018/19 Annual Audit Report.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Committee's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Committee's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the Council to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing the Council's arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing.

Should we be informed of any instances of money laundering at the Highland Council we will report these to the Auditor General for Scotland.

Respective responsibilities

As set out in the Code of Audit Practice there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	The Council's Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, governance compliance statement and management commentary Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements
- Review and report on, as appropriate, other information eg annual governance statements, governance compliance statement and management commentary,
- Notify the Controller of Audit when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice



- By reviewing and providing judgements and conclusions on the Council's arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the Council
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Technical updates

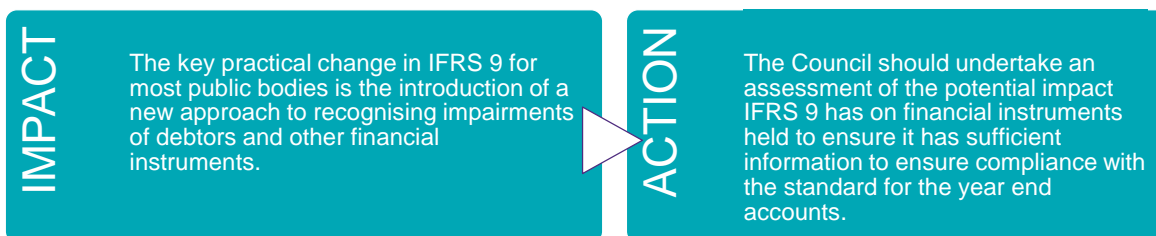
For 2018/19, new accounting standards (International Financial Reporting Standards (IFRS)), will apply covering revenue (IFRS 15) and financial instruments (IFRS 9).

IFRS 9: Financial Instruments

The introduction of IFRS 9 produces a more principles based approach to the accounting of financial instruments, including their classification and measurement. The main features of the new standard are summarised in the table.

IFRS 9	Impact
Criteria for classification of financial assets	IFRS 9 applies a single classification and measurement approach to all types of financial assets based on: <ul style="list-style-type: none"> - The body's business model for managing financial assets; - The contractual cash flow characteristics of the financial asset. This represent a departure from IAS 39's reliance on the terms of an instrument (traded or not).
Measurement categories for financial assets	The new measurement categories for financial assets are as follows: <ul style="list-style-type: none"> - Financial assets measured at amortised cost - Financial assets measured at fair value through other comprehensive income - Financial assets measured at fair vale through profit or loss
Impairment	IFRS 9 contains a forward looking expected loss impairment model and requires the same measurement basis for impairment for all items subject to its impairment requirements.

Implementation:
IFRS 9 has a mandatory effective date for annual periods beginning on or after 1 January 2018. Under the Code of Practice on Local Authority Accounting in the UK, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.



Technical updates

IFRS 15: Revenue from Contracts with Customers

According to the Code of Practice on Local Authority Accounting in the UK, the core principle in IFRS 15 is that local authorities will be required to recognise revenue to present the transfer of promised goods or services to service recipients as an amount which the authority expects to receive in exchange for those goods or services. To assist local authorities with the understanding of the processes required to achieve that objective, the Code sets out the five-step process which is featured in IFRS 15. The five-step process is summarised below.

1. Identify the contract(s) with a service recipient
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the authority satisfies a performance obligation

Implementation: IFRS 15 has a mandatory effective date for annual periods beginning on or after 1 January 2018. Under the Code, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The impact of the introduction of IFRS 15 will vary across organisations.

IMPACT

The impact of the introduction of IFRS 15 will vary across organisations. For the Council, careful consideration will need to be given to any contractual arrangement and the potential performance obligations contained within these.

ACTION

The Council should undertake an assessment of the potential impact IFRS 15 across its material revenue streams to ensure it has sufficient information to allow compliance with the standard. Early evaluation is advised as this may impact on final outturn reported in the financial statements and budgetary implications.

Audit action

We will continue to work with officers to understand the impact of the introduction of IFRS 9 and IFRS 15 on the entity's financial statements and any potential changes in accounting policy that arise from these. We do not anticipate that IFRS 9 will have a material impact on the entity's financial statements. However, further assessment is required around the impact of IFRS 15, particularly over contract arrangements. We will provide an early review of the proposed year end accounting treatment, providing relevant technical insight and challenge to provide assurance that the year end financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the UK and applicable accounting standards.

Additional planning considerations of wider scope for 2018/19

In accordance with the Audit Scotland Planning Guidance, we consider the following areas of focus as part of our audit work:

EU Withdrawal

There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019 and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for the Council.

Planning consideration

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the Council are: workforce implications; funding; and regulation. We will consider the work done by the Council with regards assessing the potential risks faced and readiness for EU withdrawal.

Changing landscape for public financial management

Recognising the changing landscape of Scottish public finances, including significant tax raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds. This is likely to increase the scrutiny of public sector annual accounts and audit reports.

Planning consideration

The focus on public entities performance reporting will be under increasing security, including that of the Council and how public funds are used. As part of our audit we will consider the extent to which the performance report provides an accessible account of the Council's overall performance and impact of its public spending and transparency of reporting.

Dependency on key suppliers

The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We will consider the arrangements in place for identifying key supplier and risks, if any associated with these and how effectively these are being managed.

Planning consideration

We consider the risk to the Council with regards key supplier dependencies as limited given the nature of operating activity. We will consider these arrangements during our audit.

Openness and transparency

There is an increased focus on how public money is used and what is achieved. This includes the extent to which the Council keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.

Planning consideration

We will consider Audit Scotland's guidance around openness and transparency as we consider the Council's governance arrangements during 2018/19.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Officers and the Audit and Scrutiny Committee.

