The Highland Council

Annual Audit Plan 2015/16

Prepared for Members of The Highland Council

March 2016

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

The Accounts Commission has appointed Stephen Boyle as the external auditor of The Highland Council for the period 2012/13 to 2015/16.

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

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

Contents

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in The Highland Council's (the council's) financial statements.

2. This report summarises the key challenges and risks facing the council and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
   - the risks and priorities facing the council
   - current national risks that are relevant to local circumstances
   - the impact of changing international auditing and accounting standards
   - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission for Scotland
   - issues brought forward from previous audit reports.

3. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. As a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the council is the sole trustee irrespective of the size of the charity.

4. The council has two registered charitable trusts with assets totalling £2.7 million which require to be separately audited as the council is the sole trustee. We will undertake the audit of the council's charitable trusts in parallel with the audit of the council's financial statements.

Summary of planned audit activity

5. Our planned work in 2015/16 includes:
   - an audit of the financial statements and provision of an opinion on whether:
     - they give a true and fair view of the state of affairs of the council and its group as at 31 March 2016 and its income and expenditure for the year then ended
     - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
   - an audit of the financial statements and provision of an opinion for the charitable trusts where the council is sole trustee
   - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year

- a review and assessment of the council's governance and performance arrangements in a number of key areas including: key financial controls, review of adequacy of internal audit, the management of Arm's Length Organisations (ALEOs), best value, statutory performance indicators, corporate governance and arrangements for the prevention and detection of fraud and corruption
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative arrangements and results
- collection of relevant financial and performance information to inform Audit Scotland's national reports.

Responsibilities

6. The audit of the financial statements does not relieve management or the Audit and Scrutiny Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

7. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

8. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Director of Finance

9. It is the responsibility of the Director of Finance, as the appointed 'proper officer', to prepare the financial statements in accordance with relevant legislation and the Code. This means:

   - maintaining proper accounting records
   - preparing financial statements which give a true and fair view of the state of affairs of the council and its group as at 31 March 2016 and its expenditure and income for the year then ended
   - preparing financial statements which properly present the receipts and payments of the council's charitable trusts for the year ended 31 March 2016 and their statements of balances at that date.

Format of the accounts

10. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit approach

Our approach

11. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the council and its group. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of the council and its group and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

12. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:

- comprehensive closedown procedures for the council and group financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for preparation of financial statements and the provision of supporting working papers
- delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
- completion of the internal audit programme for 2015/16
- representations from the auditors of the council's subsidiaries within the group boundary.

13. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review concluded that The Highland Council's internal audit section operates in accordance with the vast majority of the Public Sector Internal Audit Standards. In order to achieve full compliance an external assessment is required to take place at least every five years. Plans are in place for West

Dunbartonshire Council to independently assess the council's internal audit service during 2016/17.

14. Internal Audit is currently experiencing staff shortages, and the impact of these on the 2015/16 Audit Plan was reported to the Audit and Scrutiny Committee in November 2015. The 2016/17 Audit Plan has been based on a reduced resource following the outcome of the council's voluntary redundancy scheme (VRS). The Director of Finance has, however, recognised that the current staff shortages and the impact of the VRS would form a disproportionate reduction in the size and capability of the internal audit team. Proposals are, therefore, being developed to enhance the team from other sources to ensure that this is resourced to an acceptable level.

15. We plan to place formal reliance on aspects of the work of internal audit in the following areas to support our audit opinion on the financial statements:
    - debtors
    - cash income
    - housing rents including follow up of progress made in implementing the recommendations contained in internal audit's Finance Service/Community Services Housing Revenue Account Reconciliation Investigation report
    - council tax - valuation
    - non domestic rates – valuation
    - testing of key controls to support the Head of Audit & Risk Management's opinion on the council's system of internal control including review of the description, design and operating effectiveness of the controls in operation at CAPITA who host the council's new financial management system.

16. In respect of our wider governance and performance audit work we also plan to rely on internal audit's annual review of the local code of corporate governance.

Materiality

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

18. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

19. Based on our knowledge and understanding of the council we have set our planning materiality at £8.669 million (1% of gross expenditure).

20. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:

- the extent of estimation and judgement within the financial statements
- the nature and extent of prior year misstatements
- the extent of audit testing coverage.

21. For 2015/16 we have set performance materiality for the council at £4.335 million. We will report, to those charged with governance, all identified misstatements which exceed £100,000 (reporting threshold).

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

Exhibit 1: Materiality levels

	Planning Materiality £	Performance Materiality £	Reporting Threshold £
Council	8,669,000	4,335,000	100,000
Group	8,727,000	6,982,000	100,000
Highland Council Charitable Trusts	337 (SRP) 34,090 (SB)	168 (SRP) 17,045 (SB)	15 (SRP) 1,500 (SB)
Highland Charities Trust	166 (SRP) 2,000 (SB)	83 (SRP) 1,000 (SB)	5 (SRP) 100 (SB)
SRP – Statement of Receipts & Payments SB – Statement of Balances			

Reporting arrangements

23. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The council (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August. The council must also publish the unaudited accounts on their website and give public notice of the inspection period.

24. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

25. The council is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The council is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

26. An agreed timetable for the audit of the council's and charitable trusts' financial statements is included at Exhibit 2 that takes account of submission requirements and planned dates of Council and Audit and Scrutiny Committee meetings.

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Director of Finance, relevant senior managers, the Head of Audit & Risk Management and Audit Scotland's Performance Audit and Best Value Group.

Exhibit 2: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	By 31 March 2016
Testing and review of internal control systems	By 31 May 2016
Planned council consideration of unaudited financial statements	29 June 2016
Submission of unaudited financial statements with working papers package (council and charitable trusts)	30 June 2016
Progress meetings with lead officers on emerging issues	Fortnightly
Latest date for final clearance meeting with Director of Finance	2 September 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	19 September 2016
Audit and Scrutiny Committee meet to approve the audited financial statements for signature	29 September 2016
Independent auditor's report signed	30 September 2016
Latest date for signing of WGA return	3 October 2016

28. We will provide an independent auditor's report to members of The Highland Council, trustees of the council's charitable trusts and the Accounts Commission that the audits of the financial statements have been completed in accordance with applicable statutory requirements. The combined ISA 260 and Annual Audit Report will be issued by 30 September.

29. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

30. Planned outputs for 2015/16 are summarised at Appendix 1.

Quality control

31. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

32. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen Boyle.

Independence and objectivity

33. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

34. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the Director of Finance, as section 95 officer, of the circumstances and of the steps we have taken to manage this. We have advised the Director of Finance accordingly, in respect of any relationships impacting on the audit of The Highland Council.

Audit issues and risks

Audit issues and risks

35. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the council. We have categorised these risks into financial statements risks and wider dimension risks. In most cases, actions to manage these risks are either planned or already underway. Details of the sources of assurance that we have received for each of these risks and the audit work we plan to undertake is set out in Appendix 2.

Financial statement issues and risks

36. **New corporate financial management system**: the 2015/16 annual accounts for the council, its group and the charitable trusts will be produced from The Highland Council's new corporate financial management system (INTEGRA) which was introduced on 1 April 2015. The effective operation of this new system is fundamental to the preparation of the 2015/16 financial statements and our audit opinion. As with any new system, there is a risk that it is not operating as expected. Finance staff will need to review and revise any working papers which rely on ledger reports generated from the system to ensure that they continue to produce accurate figures for inclusion within the 2015/16 accounts.

37. **Management and supervision of the accounts preparation process:** as noted at paragraph 9, the Director of Finance is responsible for preparing financial statements in accordance with relevant legislation and the Code. Over the last four years, a number of significant adjustments were made to the council's unaudited accounts following our audit. Appropriate management and supervision is required at all stages of the accounts preparation process to ensure that the financial statements submitted for audit comply with the requirements of the Code. We have been advised that the review process will be improved and working papers will be reviewed by a senior member of staff prior to the submission of the 2015/16 accounts for audit.

38. **Workforce planning:** the council is currently seeking to significantly reduce its workforce in order to help balance its 2016/17 budget. This approach can be an effective way of reducing costs, but it may not ensure that the right people are retained in the right place. There is a risk that the council will not retain sufficiently qualified and experienced staff to ensure the continued sustainability of council services, and that the financial statements are prepared to the required quality and by the agreed timescales.

39. **Change to accounting requirements**: the 2015/16 Code includes changes due to the adoption of IFRS 13: Fair Value Measurement. Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required and the Code requires surplus assets to be measured at fair value. As with any change to the Code, there is a risk that the 2015/16 unaudited accounts will not comply with the new disclosure requirements.

40. **Management override of controls:** auditing standards (ISA 240: the auditor's responsibility to consider fraud in an audit of financial statements) requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position reflected in the financial statements. We will test journal entries and review accounting estimates for bias as part of the audit of the council's financial statements.

Wider dimension issues and risks

41. **Financial management and sustainability:** the council's 2016/17 local government grant settlement from the Scottish Government is 4.31% lower than last year and as a result of this and other additional budget pressures the council had to find savings of £39.9 million in order to balance its 2016/17 budget. As part of a range of savings and service reductions, the council agreed to offer voluntary redundancy to 341 staff (275 FTE) resulting in a net saving of £5.9 million in 2016/17. The council acknowledges that these staff reductions will result in reduced service capacity and that a fundamental redesign of what and how services will be delivered in the future is required. We will monitor the council's progress in redesigning how it delivers its services as part of our 2015/16 audit and report our findings in our annual audit report.

42. **Loan to Inverness Airport Business Park Ltd:** the council incurred costs of £1.175 million in support of Inverness Airport Business Park Ltd in 2005 and 2006 which the company was due to repay under a loan stock instrument in 2010 and May 2015. On both occasions the company exercised its right to defer these payments and under the terms of the agreement there is uncertainty when, if ever, this loan will be repaid. There is a risk that the loan will not be repaid and that the council will suffer financial loss at a time when savings are required to balance the council's budget over the next three years. The council has requested that the company prepare a revised Development Plan including cash flow projections and revised estimates as to when the company expects to be able to repay the council. We will continue to monitor the progress of these discussions and will report our findings in our annual audit plan.

43. **Governance of charitable trusts:** the council's two charitable trusts are governed by trustees. No trustee meetings were held in 2013/14 or 2014/15 and in their absence it is not clear how trustees discharge their duty of proper stewardship of the trusts' funds. Last year we also reported that the governance costs included in both of the charitable trusts' financial statements exceeded the trigger (25% of total resources expended) set by the Office of the Scottish Charity Regulator (OSCR) as indicative of a possible failure to apply funds for charitable purposes. The council has agreed to review the governance arrangements for the charitable trusts. We will review the revised arrangements as part of our 2015/16 audit and report our findings in our annual audit report.

44. **Financial management and administration of the Common Good Funds:** the Inverness Common Good Fund (ICGF) holds a portfolio of investment properties and over the next two years will incur significant capital expenditure on repairs to the Town House's stonework and on the refurbishment of offices at 1-5 Church Street. The majority of the ICGF's stock market investment portfolio will be sold to fund this capital expenditure, reducing investments from £10 million to £3.5 million once this work is completed. In our 2014/15 Report on the Audit we reported that it was not clear from our reading of committee minutes and council agenda papers that other options were considered by members before the decision was made to liquidate the majority of the ICGF's investment portfolio. During 2014/15 there were also three instances where the council decided to pay restitution to the Common Good Funds due to deficiencies in its administration and financial management arrangements. There is a risk that appropriate administration and financial management arrangements are not currently in place which may result in financial loss to the Common Good Funds. We have been advised that the council will review the Common Good Funds to ensure a consistent approach is taken to financial management and administration. We will review the outcome from this review and report our findings in our annual audit report.

45. **Cyber security:** over the past 12 months a number of Scottish public organisations have been victims of cyber attacks and related activities. Cyber attacks can result in the loss of personal or sensitive data and/or result in the loss of critical systems impacting on service delivery. We will review the council's preparedness for dealing with cyber attacks as part of our 2015/16 audit and report our findings in our annual audit report.

46. **Transport infrastructure assets**: the 2016/17 Code requires transport infrastructure assets to be measured at depreciated replacement cost with effect from 1 April 2016. We will review the council's preparedness for this major change in valuation, including the availability of complete and accurate management information on transport infrastructure assets, as part of our 2015/16 audit and report our findings in our annual audit report.

National performance audit studies

47. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

48. As part of our 2015/16 audit we will also carry out local follow up work on the '*Scotland's Public Sector Workforce'* report published by Audit Scotland in November 2013, and review progress made in implementing the agreed actions resulting from previous follow up work included in the following reports: *Maintaining Scotland's Roads: follow up work (2012)*; *Arm's length external organisations – are you getting it right: a follow up report (2014) and Major capital investments in councils: a follow up report (2015).*

49. Audit Scotland has started a programme of work to develop the new approach to auditing Best Value and discussions with the Scottish Government about refreshing the statutory guidance have begun. The Accounts Commission and Audit Scotland will maintain dialogue with stakeholders on the approach and develop the arrangements on an on-going basis. We will continue to consider Best Value audit work as part of the shared risk assessment process. The council will be the subject of a best value review within the next five years the timing of which is still to be determined.

Fees and resources

Audit fee

50. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.

51. In determining the audit fee we have taken account of the council's risk exposure, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2016.

52. The agreed audit fee for the 2015/16 audit of The Highland Council is £448,885 (2014/15 £448,885). Our fee covers:

- the costs of planning, delivering and reporting the annual audit of the council (including its two charitable trusts) and auditor attendance at committees
- the council's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

53. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

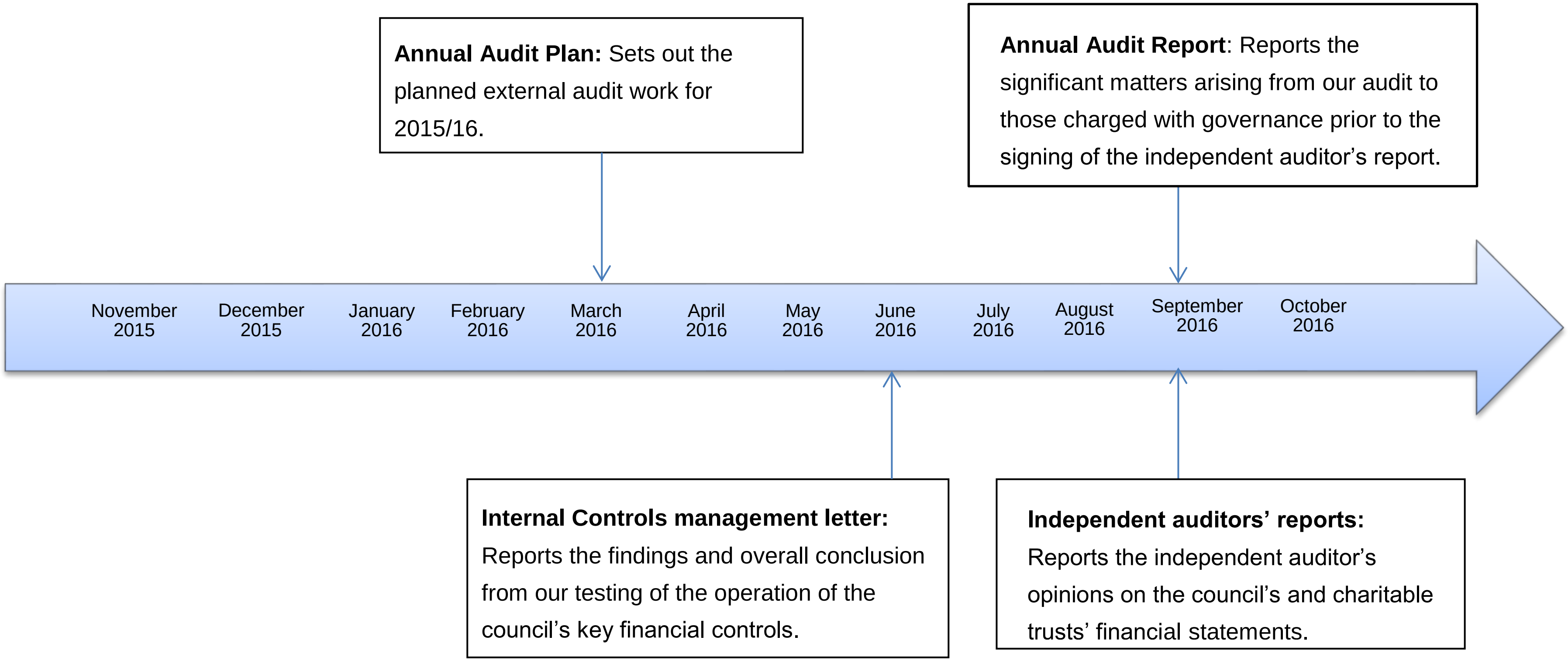
54. Stephen Boyle, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Maggie Bruce who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 3. The core team will call on other specialist and support staff as necessary.

Exhibit 3: Audit team

Name	Experience
Stephen Boyle CPFA Assistant Director (and certifying auditor)	Stephen has 19 years experience of public sector finance. He trained as an accountant with a Big 4 firm prior to joining Audit Scotland in 2002. He later worked as Head of Finance and Corporate for Cube Housing Association, before spending three years with Glasgow Housing Association as Assistant Director of Finance. He re-joined Audit Scotland in June 2013.
Maggie Bruce CA Senior/Audit Manager	Maggie has over 20 years experience of public sector audit with Audit Scotland covering the local government, health and further education sectors. Prior to joining Audit Scotland Maggie trained as an auditor in the private sector.
Jim Convery CA CPFA Senior Auditor	Jim has over 25 years experience of public sector audit with Audit Scotland covering the local government, health and further education sectors. Prior to joining Audit Scotland Jim worked in internal audit in local government and for a private accountancy practice.
Kay Jenks CPFA Senior Auditor	Kay has been involved in public sector audit for a number of years. Prior to joining Audit Scotland Kay worked for the Audit Commission for 14 years in a management role with a varied portfolio of audits in local government and health.
Joni McBride CPFA Senior Auditor	Joni joined Audit Scotland in 2008 as a graduate trainee qualifying as an accountant in September 2011. Joni has been involved in a range of audits covering local government, central government and health.
Alistair Turner Auditor	Alistair joined Audit Scotland in 2002 having previously worked in local authority finance for five years. During his time with Audit Scotland Alistair has mainly worked within the local government sector across a number of local authorities, but also has experience in the further education and health sectors.
Nicholas McShane Professional Trainee	Nicholas joined Audit Scotland in 2012 as a professional trainee and recently passed his ICAS accountancy qualification. Prior to joining Audit Scotland Nicholas was a student at Glasgow University.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for The Highland Council in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	**New corporate financial management system**: the 2015/16 annual accounts for the council, its group and the charitable trusts will be produced from The Highland Council's new corporate financial management system (INTEGRA) which was introduced on 1 April 2015. The effective operation of this new system is fundamental to the preparation of the 2015/16 accounts and our audit opinion. As with any new system, there is a risk that it is not operating as expected. Finance staff will need to review and revise any working papers which rely on ledger reports generated from the system to ensure that they continue to produce accurate figures for inclusion within the 2015/16 accounts.	• daily trial balance reports are produced from INTEGRA which are checked to ensure that the system is in balance. Error reports are also reviewed on a daily basis and corrective action taken where necessary. Daily transaction reports are taken from control accounts and reconciled to the nominal ledger and we are working towards bringing all reconciliations up to date.	• early financial statements planning meeting • increased audit testing of opening balances • review of controls operating within the new system • review of intercompany accounts reconciliations • review of revised working papers • early discussion of emerging issues.

#	Audit Risk	Source of assurance	Audit assurance procedure
2	**Management and supervision of the accounts preparation process:** a number of significant audit adjustments were made to the council's unaudited accounts in previous years. Appropriate management and supervision is required at all stages of the preparation process to ensure that the unaudited accounts comply with the Code.	• the review process will be improved and working papers will be reviewed by a senior member of staff.	• early financial statements planning meeting • review council's process for managing and supervising the accounts preparation process • early discussion of emerging issues.
3	**Workforce planning:** the council is currently seeking to significantly reduce its workforce in order to help balance its 2016/17 budget. This approach can be an effective way of reducing costs, but it may not ensure that the right people are retained in the right place. There is a risk that the council will not retain sufficiently qualified and experienced staff to ensure the continued sustainability of council services, and that the financial statements are prepared to the required quality and by the agreed timescales.	• the Director of Finance, along with the Chief Executive have delegated authority to review staffing structures and ensure that sufficient resources are in place • there are no planned reductions to the number of finance staff until after the accounts have been prepared and the audit has been completed.	• review of revised staffing structures • early financial statements planning meeting • review disclosures within the financial statements • early discussion of emerging issues.

#	Audit Risk	Source of assurance	Audit assurance procedure
4	**Change to accounting requirements**: the 2015/16 Code includes changes due to the adoption of IFRS 13: Fair Value Measurement. Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required and the Code requires surplus assets to be measured at fair value. As with any change to the Code, there is a risk that the 2015/16 unaudited accounts will not comply with the new disclosure requirements.	• accounting teams are aware of the changes and will ensure compliance with the 2015/16 Code.	• early financial statements planning meeting • review of surplus asset valuations • review of the revised disclosures included in the unaudited accounts • early discussion of emerging issues.
5	**Management override of controls**: ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position reflected in the accounts.		• detailed testing of journal entries • review of accounting estimates for bias • evaluating significant transactions that are outside the normal course of business.

#	Audit Risk	Source of assurance	Audit assurance procedure
Wider dimension issues and risks			
6	**Financial management and sustainability:** the council's 2016/17 local government grant settlement from the Scottish Government is 4.31% lower than last year and as a result of this and other additional budget pressures the council had to find savings of £39.9 million in order to balance its 2016/17 budget. As part of a range of savings and service reductions, the council agreed to offer voluntary redundancy to 341 staff (275 FTE) resulting in a net saving of £5.9 million in 2016/17. The council acknowledges that these staff reductions will result in reduced service capacity and that a fundamental redesign of what and how services will be delivered in the future is required.	• the council operates robust budget setting and budget monitoring processes • corporate savings targets which are not directly removed from service budgets will be the subject of regular reports to the Transformational Savings Board • the Council is meeting on 24 March to consider how re-design work should be addressed and a full action plan and timescale will be developed thereafter.	• monitor financial position through attendance at committee meetings and review of budget monitoring reports • review the council's progress as it redesigns its services to reflect its reduced workforce • comment in annual audit report as appropriate.

#	Audit Risk	Source of assurance	Audit assurance procedure
7	**Loan to Inverness Airport Business Park Ltd:** the council incurred costs of £1.175 million in support of Inverness Airport Business Park Ltd in 2005 and 2006 which the company was due to repay under a loan stock instrument in 2010 and May 2015. On both occasions the company exercised its right to defer these payments and under the terms of the agreement there is uncertainty when, if ever, this loan will be repaid.	• the council is in discussion with Inverness Airport Business Park Ltd to produce a revised Development Plan that will include cash flow projections and revised estimates as to when the company expects to be able to repay the council. This will be reported to members in due course for consideration.	• monitor the outcomes of the council's discussions with Inverness Airport Business Park Ltd • comment in annual audit report as appropriate.
8	**Charitable trusts:** the council's two charitable trusts are governed by trustees. No trustee meetings were held in 2013/14 or 2014/15 and in their absence it is not clear how trustees discharge their duty of proper stewardship of the trusts' funds. Last year we also reported that the governance costs included in both of the charitable trusts' financial statements exceeded the trigger (25% of total resources expended) set by the Office (OSCR) as indicative of a possible failure to apply funds for charitable purposes.	• both charitable trusts are umbrella organisations containing individual trusts. The governance arrangements for the individual trusts remain but are enhanced by the presentation of the unaudited and audited accounts of the umbrella organisations to all elected members in their role as trustees • work will be carried out in 2015/16 to look at the operation of the individual trusts to ensure that the governance arrangements remain robust.	• review of the revised governance arrangements • comment in annual audit report as appropriate.

#	Audit Risk	Source of assurance	Audit assurance procedure
9	**Common Good Funds:** the Inverness Common Good Fund (ICGF) holds a portfolio of investment properties and over the next two years will incur significant capital expenditure on repairs to the Town House's stonework and on the refurbishment of offices at 1-5 Church Street. The majority of the ICGF's stock market investment portfolio will be sold to fund this capital expenditure, reducing investments from £10 million to £3.5 million once this work is completed. It is not clear from our reading of committee minutes and council agenda papers that other options were considered by members before the decision was made to liquidate the majority of the ICGF's investment portfolio. During 2014/15 there were also three instances where the council decided to pay restitution to the Common Good Funds due to deficiencies in its administration and financial management arrangements. There is a risk that appropriate administration and financial management arrangements are not currently in place which may result in financial loss to the Common Good Funds.	• the re-establishment of Area Committees and a recent re-structure in the Finance Service allows greater scrutiny of the operation of Common Good Funds • a review across the various Common Good Funds will be undertaken to ensure a consistent approach is taken to financial management and administration, subject to the varying scale of each Fund.	• review of the findings from the council's review of the financial management and administration of the individual Common Good Funds • comment in annual audit report as appropriate.

#	Audit Risk	Source of assurance	Audit assurance procedure
10	**Cyber security:** over the past 12 months a number of Scottish public organisations have been victims of cyber attacks and related activities. Cyber attacks can result in the loss of personal or sensitive data and/or the loss of critical systems impacting on service delivery.	• all council systems are penetration tested.	• review of the council's arrangements for preventing and detecting cyber attacks and their strategies for mitigating these risks • comment in annual audit report as appropriate.
11	**Transport infrastructure assets:** the 2016/17 Code requires transport infrastructure assets to be measured at depreciated replacement cost with effect from 1 April 2016. We will review the council's preparedness for this major change in valuation, including the availability of complete and accurate management information on transport infrastructure assets, as part of our 2015/16 audit.	• finance staff have attended training courses and briefings and are fully aware of the new requirements in the 2016/17 Code • there will be minimal impact on staff workload in 2015/16 as this requirement does not come into force until 2016/17.	• review of council's preparations for this significant change in accounting policy • comment in annual audit report as appropriate.