

External Audit Report – Highland Council

Financial year ended 31 March 2022

Prepared for those Charged with Governance and the Controller of Audit

April 2023 – FINAL



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Highland Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of Highland Council and its Group and the preparation of the financial statements for the year ended 31 March 2022 for those charged with governance (Audit and Scrutiny Committee) and the Controller of Audit .

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and CIPFA Code of Practice on Local Authority Accounting 2021/22 ('the 2020/21 Code') of the state of the Council and its Group as at 31 March 2022 and of the income and expenditure of the Council and its Group;
- the Group and Council's financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2021/22 Code;
- the Group and Council's financial statements 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 audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

We have issued an unmodified opinion.

As in prior year our external audit work was completed remotely. The financial statements presented for audit were of a good quality and the Council finance team have supported the audit process, by providing suitable working papers and answering our auditor queries on a timely basis.

Our agreed adjustments, and those not adjusted by Officers, are set out in Appendix 1. In addition, we recommended certain enhancements to the disclosures in the accounts, and these are also captured in Appendix 1.

A draft version of this report went to the Council's Audit and Scrutiny Committee in September 2022. This was subject to the conclusion of infrastructure assets. Our work on infrastructure assets has been concluded and narrative in respect of this matter updated in this report. There have been no material changes to the report otherwise that we wish to draw Members attention to, with no further adjustments of substance noted. Recommendations are agreed and set out in the action plan.

This is our last year as the Council's appointed auditors and we wish to thank the Council and the Council finance team for supporting the audit process over our audit appointment.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at Highland Council. The scope of our audit was set out in our External Audit Plan.

The core elements of our audit work in 2021/22 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2022 [progress update within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') [within this report]
- Certification of Housing Benefits subsidiary claim, Education Maintenance Allowance and Non-Domestic Rates Certification.
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives. Our responsibilities as independent auditors, appointed by the Accounts Commission, are set out in the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK. The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to the Council throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and sustainability, risk and performance. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

Audit of the annual report and accounts

Key messages and judgements

To date we have identified 4 audit adjustments to the financial statements. Disclosure corrections identified during our audit have been detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2 and 3.

Our follow up of recommendations from the prior year's audit are detailed in Appendix 4.

Our audit opinion

Our audit report is unmodified:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of the Council and its Group as at 31 March 2022 and of the income and expenditure of the Council and its Group for the year then ended;
- the Group and Council's financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the CIPFA Code of Practice on Local Authority Accounting 2021/22 ('the 2021/22 Code');
- the Group and Council's financial statements 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; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

The audit process

Our external audit work commenced in July 2022 with the audit team working remotely. The Council prepared and published the unaudited annual report on the Council's website by the end of June, as required. The overall quality of the accounts were of a good standard.

The Council finance team supported the audit process, with both teams working well together to resolve audit queries. As in prior year we had direct access to the Council's financial ledger to support our substantive testing.

The delay is not a reflection on the Council and their support of the audit process. The reason for the delay in concluding our work include, the recently issued statutory override on infrastructure assets and the associated challenge as auditors of the resultant net-book value as at 31 March 2022. In addition, we continue to demonstrate professional challenge and scepticism, over audit evidence, including areas of significant audit risk such as valuation, and officers critical judgements and estimates.

Audit of the annual report and accounts

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan. We reviewed our planning assessment of materiality based upon your 2021/22 draft financial statements and concluded that materiality is £10.673 million for Group (£10.458 million for Council only), representing 1.2% of Group gross expenditure (and 1.2% of Council only gross expenditure).

Performance materiality was set at £6.404 million for the Group (Council only: £6.274 million), representing 60% of our calculated materiality.

We report to Officers (Management) any difference identified over £250,000 (trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for disclosures within the Remuneration Report to ensure that remuneration has been disclosed within the appropriate bandings (being £20,000). This was only for the remuneration of senior staff and does not include Councillor remuneration or Councillor expenses.

Internal control environment

In accordance with ISA requirements we have developed an understanding of the Council's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Responding to significant financial statement 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.

This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Our risk focuses on the areas of the financial statements where there is potential for management (Senior Officers) to use their judgement to influence the financial statements alongside the potential to override Highland Council's internal controls, related to individual transactions.

Our work focuses on journals, management estimates and judgements and transactions outside the normal course of business as set out within the financial statements.

In response to this significant risk, our audit response was as follows:

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management bias/indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2022 and retrospective review of those estimates as at 31 March 2021.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries.

Conclusion

Based on our risk based testing, as outlined above, we did not find evidence of management override of controls in our testing of journal transactions or instances of material error.

Risks identified in our Audit Plan

Commentary

Valuation of land, buildings and council dwellings (Council only significant audit risk)

The Council values its land, buildings and Council dwellings on a rolling five-year basis as allowed in the Accounting Code. This valuation represents a significant estimate in the financial statements due to the material values involved (land, buildings and Council dwellings held at 31 March 2021 were £2.0 billion) and the sensitivity of this estimate to changes in key assumptions. Given the value of land and buildings and the level of complexity and judgement in the valuation estimates, there is an inherent risk of material misstatement in these valuations.

The risk is less prevalent in the Council's vehicles, plant and equipment and community assets, as these are held at depreciated historic cost as a proxy of fair value and therefore less likely to be misstated. Surplus assets are not material in value and are at less risk of material misstatement.

The Council employs an external valuer, District Valuer (DV), to value Council dwellings and an in-house valuer to value land and buildings, to provide an independent valuation. Based on our planning procedures to date and subject to the results of the final valuations we focus the risk on:

- Land, buildings and Council dwellings where the valuation movement is not in line with the audit team's expectation;
- Assets which are considered to have had a "change in use" during the financial year; and
- Land and buildings which have been valued by the valuers without any physical inspection of the assets or of relevant data.
- Impairment consideration by officers and impairment indicators

In response to this significant risk, our audit response was as follows:

- review of revaluations made during the year, confirming valuations have been input correctly into the asset register;
- understanding the basis on which valuations are carried out and challenge the information and assumptions used in the valuation process;
- engaging our own valuations expert to assess the instructions issued by Highland Council to their valuers, the final valuers' reports and the assumptions used that underpin the final valuations;
- performing focused testing in relation to Officer's impairment assessment, particularly in relation to assets which have not been subject to a formal valuation during the year, and consider the appropriateness of the assumptions used as part of this assessment.

Conclusion – Land and Buildings

We have engaged our valuations expert who have assessed the instructions issued by the council to your valuation expert, no issues were noted by our valuation expert regarding the instructions issued.

We have performed substantive testing of the assumptions underpinning the valuation as well as review of accounting treatment and impairment assessment.

Having reviewed the initial valuation report that Highland Council had received from its internal valuers for the 2021-22 valuation, the audit team identified an error in the overall opinion of value in the valuation report. The error itself was significant in value, but presentational only and did not impact on the valuation postings to Highland Council's asset register and annual accounts. The error was corrected and an updated valuation report was issued by the Board's valuers however we recommend that management ensure that valuation reports are adequately reviewed upon receipt and that where errors are identified, these are reported to valuers accordingly.

- See Appendix 2 - Action Plan

Our work has not identified any material issues in relation to the valuation of land and buildings .

Risks identified in our Audit Plan**Commentary**

Valuation of land, buildings and council dwellings (Council only significant audit risk) - *Continued***Conclusion – Council dwellings**

We have engaged our valuations expert who have assessed the instructions issued by the council to your valuation expert, no issues were noted by our valuation expert regarding the instructions issued.

We have performed substantive testing of the assumptions underpinning the valuation as well as review of accounting treatment and impairment assessment.

Our work has not identified any material issues in relation to the valuation of council dwellings.

Risks identified in our Audit Plan

Commentary

Group risk – Valuation of Investment Property

The Group investment property is held within Inverness and Nairn Common Good Funds. The Group values its entire investment property portfolio annually, using the Council's in-house valuer.

The value of investment property held at 31 March 2022 was £24.5 million for Inverness and £8.3 million for Nairn Common Good Funds. Therefore, in the context of our materiality, the valuation of Inverness investment property represents a significant estimate by management (Senior Officers) in the financial statements due to the material value of the investment property and the sensitivity of this estimate to changes in key assumptions.

Given the value of investment property held by Inverness Common Good Fund and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of Inverness investment property valuation. The risk is less prevalent in Nairn investment property as we believe it is unlikely to include a material misstatement given its valuation as at 31 March 2022. We focus this risk on the appropriateness and reasonableness of the underlying rental yield assumptions used by the Council.

In response to this significant risk, our audit response was as follows:

- review of revaluations made during the year and confirming valuations have been input correctly into the asset register;
- understanding the basis on which the valuation is carried out and challenge the information and assumptions used in the valuation process, particularly in relation to rental yields used; and
- engaging our own valuations expert to assess the instructions issued by Highland Council to their valuer, the final valuer's report and the assumptions used that underpin the final valuation report.

Conclusion

Our work on Investment Property was focused on the Investment Property held within the Common Good Funds. The valuation at year end has been correctly uploaded into the Council Fixed Asset Register and the valuation has been undertaken by the Council's in-house valuer. We have confirmed the valuer is objective and independent of the Council's finance team.

We have engaged our valuations expert who have assessed the instructions issued by the council to your valuation expert, no issues were noted by our valuation expert regarding the instructions issued.

We have performed substantive testing of the assumptions underpinning the valuation as well as review of accounting treatment and impairment assessment.

Our work has not identified any material issues in relation to the valuation of investment property.

Risks identified in our Audit Plan

Commentary

Defined benefit pension scheme – Valuation

Council participates in the Highland Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Highland Council is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2021 the Council had pension fund liabilities of £336.7 million.

Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of Highland Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated within the financial statements. We focus this risk on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and suitability of these for the Council.

In response to this significant risk, our audit response was as follows:

- perform walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Officers oversight of the valuation;
- considered the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by PricewaterhouseCoopers LLP (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries);
- perform substantive analytical procedures over the pension fund movements, investigating any deviations from audit expectation;
- review the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

Conclusion

Through our audit procedures we did not identify any matters to bring to your attention. Our substantive analytical procedures were undertaken, with variances explained and agreed, where appropriate. We are satisfied that the accounting entries and disclosures in the Council's financial statements comply with the Accounting Code and IAS 19.

Our work has not identified any material issues in relation to the valuation of the defined benefit pension scheme.

Issues arising during the course of the audit - Infrastructure Assets

Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. For Highland Council infrastructure assets include roads, bridges, street lightening, traffic management systems, harbours, piers and other similar type harbour assets. Under the Local Authority Code these are measured at depreciated historical cost.

In accordance with the accounting code when a component asset is replaced the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and the gross cost and accumulated depreciation of the old component derecognised to avoid double counting.

However, during 2021 an issue was identified by auditors across the UK, auditing Local Authorities, that accounting for infrastructure assets was not correct, in that the old components were not being appropriately derecognised, due to the nature of the underlying infrastructure assets and accounting records maintained.

An approach to rectify this issue was not agreed, via a consultation on temporary code changes. As a result Scottish Government have issued a temporary statutory override through to 2024, until permanent solution can be reached.

Officers have updated the annual report and accounts to recognise this statutory override. As a result:

- Highland Council are not reporting gross carrying value and accumulated depreciation for infrastructure assets in the accounts; and
- The carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be accounted for, at a nil amount, and no subsequent adjustment made to the carrying amount of the asset, related to that part.

This use of the statutory override is referenced in the Council's updated Accounting policies and the changes made in the PPE disclosure note, within the annual report and accounts.

However, the challenge for auditors is the accounts show a highly material net-book value of £459 million, compared to our materiality level of £10.458 million. To gain sufficient audit assurance over the closing net book value we had to be able to determine that the Council's useful economic lives (UELs) adopted for Infrastructure assets are reasonable. It is UEL's that drive depreciation, which effectively determines the resultant net book balance within the accounts.

Conclusion

We engaged with our own experts to perform an assessment regarding the reasonableness of the Council's UELs applied across each class of infrastructure asset. We worked with our expert, and the Council, reviewing evidence for a number of assets within each asset class and providing challenge of the Council's expert engineers, who we have assessed to be competent and objective in their own assessment.

The work of our expert, combined with our own review and further challenge of management, has allowed us to conclude that the net book value of infrastructure assets as reported in the financial statements is free from material misstatement. We have identified a difference in judgement of £9.1m between our own assessment and management's assessment which, while large, is not material and in light of this fact we are satisfied that managements estimate is reasonable within the context of materiality. We have not recorded this as an unadjusted error, as is not an error, but a difference in judgement/estimate, between Auditor and Management, and we have concluded it is not unreasonable and the balance is below materiality.

Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Highland Council and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2021/22 Local Government Accounting Code of Practice.
- We enquired of Officers and the Audit and Scrutiny Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Officers and the Audit and Scrutiny Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of investment property (Group); Valuation of land, buildings and Council dwellings and the estimations in respect of the Council's defined pension liability. Our audit procedures are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - Highland Council and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Council's control environment, including the policies and procedures implemented by the Council to ensure compliance with the requirements of the financial reporting framework.

Significant estimates and judgements

Highland Council and its group financial statements include the following significant accounting estimates and judgements impacting on the annual accounts:

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property Plant and Equipment (£2.802 billion) – Useful economic lives	<p>As at 31 March 2022, the Council held NBV PPE of £2.802 billion.</p> <p>In accordance with the Council's valuation programme, assets are revalued at least once every 5 years. In intervening years the Valuer provides updated valuations for all DRC assets. The valuation exercise includes judgement and estimation by the valuer, and is based on a combination of desktop and physical inspection.</p> <p>Assets held by the Council are subject to depreciation. This is calculated on an annual basis subject to the estimation of asset useful economic lives. Errors in this estimation could result in a material under or over charge of depreciation impacting on the carrying value of assets at the year end.</p>	<p>We have tested the depreciation charged during 2021/22 and we have reviewed the appropriateness of the useful estimated lives used by the Council during the year. See separate commentary on UEL's for Infrastructure Assets.</p> <p>We have challenged the assessment of the potential impairment of PPE by management, including consideration of any indicators of impairment of PPE not recognised by the Council.</p> <p>We are satisfied that the useful economic lives used by the Council are considered reasonable and based on an informed judgement, using valuation specialists to assist in this determination.</p>	<p>● [light purple]</p>

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Infrastructure Assets – Useful Economic Lives NBV as at 31 March 2022 is £459million (16% of total Council assets)</p>	<p>Council Officers have determined useful economic lives (UELs) for Infrastructure assets. These have been based on consideration by Council engineers. Traditionally, the UELs were matched to the loans borrowing to fund the capital enhancement. The Council has two broad types of infrastructure assets – Roads and coastal. Roads have been designated as having a 30 year UEL and coastal, 60 years.</p> <p>UEL is an area of Officer judgement and estimation. If UEL were incorrect, they could materially impact on the net-book value disclosed in the Accounts.</p>	<p>The Council applied the statutory override. Given the specialist nature of these assets we engaged with an auditor expert (engineering) to support our consideration of whether the UEL was not unreasonable. In addition, managements expert gave us a formal paper, setting out their consideration and judgements.</p> <p>Our expert agreed that the UEL on Roads was reasonable. In respect of the coastal category, we have a difference of opinion, on judgement and estimate, between our expert and management's expert. We undertook further consideration of this, looking at specific records for larger/material projects and gained sufficient assurance, over material projects that managements UEL was not unreasonable. The difference remaining was below materiality.</p> <p>Looking ahead, the Council will need to ensure it maintains sufficient records, to record infrastructure assets, and spend on assets including derecognition, when the statutory override period ends. In addition, a full review of UEL's should be considered, supported by management experts, to support the audit process and evidence the judgements and rationale made by Management.</p>	<p>[light blue]</p>

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Asset valuation	<p>As at 31 March 2022, the Council held PPE of £2.802 billion including Council Dwellings (£573.429 million) and Other Land and Buildings (£1.591 billion). T</p> <p>The Council employed professional valuers, District Valuer (DV) to value Council dwellings, and the in-house valuer valued all other land and building assets, to provide an independent valuation of land and buildings on a rolling programme of valuations, valuing land and buildings at a minimum of once every five years.</p> <p>Officers have disclosed that the estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year include property valuations. They have also confirmed and disclosed that they rely on the valuation information provided by their external valuer.</p>	<p>We have tested the accounting entries processed by management in relation to the valuation to ensure these were in accordance with the 2021/22 Code.</p> <p>We have tested the data and assumptions applied by management (and their experts) in producing the valuation estimate.</p> <p>We have evaluated the competence, capability and objectivity of the Council's professional valuers.</p> <p>We have used our auditor's valuation expert in order to challenge the Council's expert advice around the valuation instructions issued to their external and internal valuer and the approach adopted in valuing Council Dwellings and Other Land and Buildings as at 31 March 2022.</p> <p>We have challenged management's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council.</p>	<p>● [light purple]</p>

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Arrears	<p>At 31 March 2022 the Council had a balance of sundry debtors of £10.516 million. This is a slight reduction than prior year.</p> <p>A review of balances suggested that an allowance for impairment of £3.180m was appropriate. However, in the current economic climate the Council confirm in the annual accounts that it is not certain that such an allowance would be sufficient.</p> <p>In addition to this impairment allowance, an allowance is also included in the accounts for Council tax debt and non-domestic rates.</p>	<p>Through our audit testing performed we are satisfied that the allowance for impairment for sundry debt, Council Tax debt and Non-Domestic Rates debt are reasonable.</p>	<p>● [light purple]</p>
Public sector funding	<p>The Council has disclosed a critical judgement in relation to the high degree of uncertainty about future levels of funding for local government. It notes however that the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.</p>	<p>We have considered going concern, under FRC practice Note 10 and concluded the Council is a going concern.</p> <p>We comment on the Council's financial management and financial sustainability in our wider scope reporting section.</p>	<p>● [light purple]</p>

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Fair value measurements	<p>The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for investment properties and financial assets.</p>	<p>We have considered unobservable inputs as part of our audit work in relation to investment properties and other material financial assets.</p> <p>No material misstatements were identified during our audit work.</p>	<p>● [light purple]</p>

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
IAS 19 Pension obligations	<p>The Council has provided for estimated liability relating to the Council and Group's share of the net liability in the Highland Council Pension Fund.</p> <p>The Council engage Hymans Robertson UK LLP to provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are several assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and future salary projections.</p> <p>These key assumptions are discussed with the actuary to inform the report. These are predominantly informed by the actuaries recommended assumptions and subject to review from Officers from the Council.</p> <p>As administering authority for the Pension Fund, the Council also submit data to the actuary to inform both the triennial valuation (as at 31 March 2020) and the annual IAS 19 valuation.</p>	<p>As noted, using the work of PwC we reviewed the key assumptions underpinning the actuarial valuation.</p> <p>We are satisfied that the assumptions adopted were appropriate for the Council and considered reasonable i.e. within our acceptable tolerances and that management have disclosed the key sensitivities surrounding these assumptions and data in the draft financial statements.</p>	<p style="text-align: center;">●</p> <p>[light purple]</p>

Significant estimates and judgements (continued)

As required in the Council's Accounting Policies note, Officers outline critical judgements in applying accounting policies. In addition, assumptions about the future and other sources of estimation uncertainty. There is an opportunity for Officers to re-review this disclosure for 2022/23 to ensure they fully comply with the requirements set out in IAS 1. In particular, where estimates and judgements are identified, these should be quantified. Whilst what is currently disclosed, is representative of judgements and estimates, they are not all, in our view, critical judgements in the context of the financial statements (see Appendix 2).

Disclosure includes: Funding, PFI/PPP, PPE, Valuation of PPE, Arrears, Pension Liabilities and Fair Value measurement.

In addition to these balances we have sought assurance from Officers of other accounting estimates in the accounts and tailored our work appropriately. These are not significant or material.

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is Highland Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from Officers regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of Highland Council's accounting policies, accounting estimates and financial statement disclosures. We have proposed disclosure enhancements and these are reported in Appendix 2. The Council's accounting policies are in line with the Local Government Accounting Code of Practice.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. The Council's disclosure of related party transactions could be further enhanced in accordance with the Audit Scotland Good practice guidance and IAS 24 requirements. See action in Appendix 2.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we have issued an unmodified opinion in this respect.

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). We have no matters to report in respect of the Annual Governance Statement.
Matters on which we report by exception	We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group.
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Issue	Commentary
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, receive matches for investigation.</p> <p>As part of our audit work in the current year we considered the progress made by the Council in investigating matches. Due to the impact of Covid-19 the Council's progress has been delayed in implementing the investigation of matches. The Council has prioritised higher risk matches and continue to investigate outstanding matches.</p>
Grants and WGA return	<p>In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2021/22 we are required to provide the following certifications:</p> <ul style="list-style-type: none"> • Education Maintenance Allowance 2021/22 [October 2022] • National Non-Domestic Rates Income Return (NDR) [deadline 7 October 2022]; and • Housing Benefit certification [work planned for November and December 2022] <p>In addition to the grants noted above we are required to also conclude on Whole of Government Accounts (WGA). We will conclude this once we have concluded our audit and the NAO guidance and procedures are available.</p>

**Wider scope and best value
conclusions**

Wider scope audit

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk based audit approach to wider scope. Within our audit plan we identified 2 significant wider scope risks. In addition, we follow up on the Council's progress against its Best Value Assurance Improvement Plan, implemented following the Best Value Assurance report published in 2019. As part of our audit work during the year we have not identified any additional wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion								
Financial Management Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	No significant wider scope risks identified	Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Council's financial management arrangements.	Year on year the Council has continued to improve it's financial position, since that reported in the 2019 Best Value Assurance Report. In particular, the Council has re-established its reserve balances in line with the wider reserves strategy.								
		Financial performance and the impact of Covid-19 The Council reported total comprehensive income for the year of £223.056 million. Income sources include Scottish Government funding, Council tax and NDR income, Car parking income, for example. Included within income, were £21.5 million related to Covid-19 grants (compared with £56.2 million of Covid-19 funding in prior year).									
		<table border="1"> <thead> <tr> <th>Performance in year</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Service underspend against budget</td> <td>8.4</td> </tr> <tr> <td>Council funding, including Covid-19 funding, in excess of budget</td> <td>0.6</td> </tr> <tr> <td>Overall surplus for the year</td> <td>9.0</td> </tr> </tbody> </table>	Performance in year	£m	Service underspend against budget	8.4	Council funding, including Covid-19 funding, in excess of budget	0.6	Overall surplus for the year	9.0	The Council ended the financial year with £19.3million, non-earmarked funds in reserve. This equates to circa 3% of revenue and in line with the reserve strategy. In addition, earmarked reserves increase by £45.9million representing funds allocated for specific purposes, and ringfenced. This includes an element of NHS Highland, social care funding.
Performance in year	£m										
Service underspend against budget	8.4										
Council funding, including Covid-19 funding, in excess of budget	0.6										
Overall surplus for the year	9.0										
		Capital net spend was £91.5 million, slightly below the capital programme forecasted spend due to some slippage in capital priorities in-year. The Council's financial position is well set out in the annual report and accounts narrative, at the start of the report with good use of info-graphics to show spend compared with budget and explanations of key movements, for the users of the accounts.									

Wider scope dimension

Plan risk

Wider scope audit response and findings

External Audit conclusion

Financial Management (continued)

The Council effectively managed income and expenditure in-year. The budget set for 2021/22 did reflect a degree of uncertainty, particularly in respect of costs and any associated Covid-19 funding, to be received centrally. As a result, of additional income, with costs being lower than forecast certain services were underspent, compared to budget, at year-end. The Health and Social Care budget, for example, recorded an underspend of £3.9million. As of 31 March 2022, the Council achieved a surplus of £9million.

Covid-19 Funding

Over the last two years the Council has received £77.7 million in Covid-19 funding. Of which £21.5 million was received in 2021/22.

In addition, the Council has administered £197 million in grant funding to businesses on behalf of the government. This was done on an agency basis and therefore, in accordance with accounting requirements, whilst disclosed in the accounts, these grants are not in the Council's Comprehensive Income and Expenditure Statement.

Application of Covid-19 Funding	£m
Overall service budget surplus for year (above)	9.0
Use or non-earmarked reserves in year	(3.4)
Use of earmarked reserves in year	(21.8)
Increase in earmarked balances for specified additional funding streams (includes Covid-19 and developer contributions)	38.0
Net increase in General Fund reserves	21.8

Through covid grants and the achievement of savings programmes in-year the Council has managed to further build on its reserve position at year-end. The uncertainty that was reflected in the 2021/22 budget was not fully realised and this supported the achievement of a small surplus compared with the budget forecast.

Financial reports continue to be presented to full Council and the Resources Committee. From our review these are detailed reports, which are accompanied by an overview and presentation from the S95 officer. Based on our review of on-line committees questions are well answered and a mechanism in place to follow up, where needed.

Wider scope
dimension

Plan risk

Wider scope audit response and findings

External Audit conclusion

**Financial
Management
(continued)**

The Council does not anticipate receiving further Covid-19 funding in 2022/23, and certainly not of the same magnitude. Therefore, the Council is reporting increased financial pressures, from 2022/23 onwards. In seeking to mitigate this, where practical, the Council has revisited its reserve strategy and identified a sufficient level of reserves, which would be necessary, to provide the Council with contingency in future years, whilst still delivering services.

Finance team

In June 2022, the Council's Section 95 Officer left the Council. This role is being filled on an interim basis by the Head of Corporate Finance. See commentary within the governance section of this report on the Council's leadership arrangements.

In addition, within the finance function, through retirement and leavers, the finance team has become reduced. In terms of the annual report and accounts responsibilities, including supporting the audit process, there are key dependencies.

We would recommend, once the S95 Officer is appointed, there is a further review of the capacity within the finance team and where necessary, recruitment takes place to fill any gaps identified. We recognise, for Highland Council, the recruitment market is challenging. [See Wider Scope Action Plan – Recommendation 1]

During 2022/23, recognising the loss of experience in the Finance team, alongside the S95 Officer the Council should look to review capacity within the team.

In particular, the capacity to produce the annual report and accounts at year-end, and then support the audit process. Currently there is a reliance on a small number of individuals, who need to balance the audit process with other roles and commitments. This creates pressure on the finance team at certain points in the year.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion														
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Significant risk identified:</p> <p>While the Council continues to report strong financial performance in 2021/22, the outturn position in the current year and 2022/23 reflects the planned use of Covid-19 funding. The Council faces more significant challenges in dealing with the longer term uncertainty of the impact of Covid-19 and not anticipating continued future financial support. We will focus on in-year financial performance for 2021/22 as well as considering the impact of the Council's performance on its medium to long term financial sustainability.</p>	<p>Response to significant risk:</p> <p>The Council's financial projections highlight a period of significant uncertainty for the Council. Financial plans project a potential budget gap of £13.9 and £120.4 million. Therefore, the Council needs to ensure they continue to monitor financial forecasts, ensuring financial plans reflect best available information to support effective use of resources in a financially sustainable way.</p> <p>In March 2022, the Council approved a balanced revenue budget for 2022/23. The budget identified an overall budget gap of £34.1 million in-year as a result of anticipated pay and other cost pressures. The Council agreed, in March, the following measures to close the budget gap in 2022/23:</p> <table border="1" data-bbox="667 643 1780 1010"> <thead> <tr> <th></th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Budget gap</td> <td>(34.1)</td> </tr> <tr> <td>Impact of Council tax increase (and collection)</td> <td>5.0</td> </tr> <tr> <td>Savings delivered in prior years (benefit realised in 2022/23)</td> <td>6.4</td> </tr> <tr> <td>Agreed new savings to be delivered</td> <td>17.0</td> </tr> <tr> <td>Use of reserves to offset covid-19 budget pressures</td> <td>5.7</td> </tr> <tr> <td>Residual budget gap</td> <td>-</td> </tr> </tbody> </table> <p>As reported to the Corporate Resources Committee in September 2022 the Council is currently tracking an overspend position of £9.6m forecast against the revenue budget. This overspend has arisen due to:</p> <ul style="list-style-type: none"> - Unbudgeted costs of the current pay offer (£5million) - Overspend at a service level due to rising inflation costs (£3.6million) - Utility pressures not budgeted (£1million) - Delays in asset management savings (£0.6million) 		£m	Budget gap	(34.1)	Impact of Council tax increase (and collection)	5.0	Savings delivered in prior years (benefit realised in 2022/23)	6.4	Agreed new savings to be delivered	17.0	Use of reserves to offset covid-19 budget pressures	5.7	Residual budget gap	-	<p>The Council faces a period of significant uncertainty. The Council's 2022/23 budget identified the need of savings to be delivered of £17.0 million as well as the use of reserve of £5.7 million to deliver a balanced budget.</p> <p>Whilst plans exist to support savings, with the impact of inflation on pay and cost pressures in year further savings will be needed for 2022/23.</p> <p>Underpinning the identified savings are savings plans which are monitored and reported against. Based on our review, these are reasonable and consistent with other areas of focus within Scottish Local Government.</p>
	£m																
Budget gap	(34.1)																
Impact of Council tax increase (and collection)	5.0																
Savings delivered in prior years (benefit realised in 2022/23)	6.4																
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Use of reserves to offset covid-19 budget pressures	5.7																
Residual budget gap	-																

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)		<p>Financial risks, which will likely impact 2022/23 and beyond include:</p> <ul style="list-style-type: none"> - 2022/23 pay award. Ongoing discussions with Trade Unions, including teaching, has not yet been concluded. - Non-pay cost inflation resulting in significant cost increases when the Council has re-procured services under contracts - Further demand led pressures anticipated including social care and winter pressures which could result in costs exceeding those budgeted for. <p>Medium Term Financial Planning</p> <p>The delivery of the 2022/23 outturn position will be a challenge for the Council. To date the Council has demonstrated that it can operate within financial resources. However, there remains uncertainty and risk around the financial projections in the context of changing demand on services as the Council continues to recover from the pandemic alongside rising inflation and cost of living pressures.</p> <p>The Council forecasts a budget gap of £40.9million in 2023/24. Gaps beyond 23/24 are anticipated to be significant, and potentially greater than what is forecast in 23/24, if the high inflation trend continues.</p> <p>The drivers of the gap in 2022/23 are: increasing pay costs, net pay cost increases (inflation) and changes in core grant from government.</p> <p>The Council will be unable to deliver the same services in the same manner, in 2022/23, recognising income as forecast will not meet all the costs incurred by the Council.</p>	<p>Given the environment the Council will be facing a period of difficult decisions, which will impact on services.</p> <p>The Council's cost base, as it stands, is increasingly unaffordable, in the context of income being received from Scottish Government and other income sources available to the Council.</p> <p>A clear challenge will be delivering savings, that are sustainable, beyond just the year in which they are delivered, which is a consistent challenge across the wider public sector, not just Highland Council. Savings will need to be a result of service redesign, a reduction in workforce and potentially service reduction.</p>

Wider scope
dimension

Plan risk

Wider scope audit response and findings

External Audit conclusion

**Financial
sustainability
(Continued)**

To address the challenge, the Council has determined certain budget strategies, including People, increasing income; service prioritisation and redesign, asset management, contract management and a capital programme and reserves review.

The Council recognise it needs to reduce its headcount. This will be done through natural turnover in the first instance. The workforce model will need to be reviewed with pace and will need staff engagement and working with Trade Union Partners.

The Council has yet to approve saving plans beyond 2022/23. Once the new Corporate Plan is developed, following the May 2022 elections, there is the opportunity to look to align current and future savings plans, in the context of the Corporate Plan. [see Wider Scope Action Plan recommendation 2]

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified:</p> <p>With the pending local council elections and ongoing recovery activity in response to Covid-19, it will be important for the Council to have effective governance arrangements in place. We will review the governance arrangements in place during 2021/22 and future planned arrangements for 2022/23 and beyond. We will review the effectiveness of scrutiny across the Council. We will consider the ways in which the Council ensures effective scrutiny is in place.</p> <p>On 12 May 2021, the Council agreed a revised set of Equality Outcomes for 2021-2025, including outcomes for the Education Authority and the Licensing Board. These reflect the Council's priority areas for equality work. We will review the progress made by the Council in this area.</p>	<p>Local elections and training</p> <p>Following the local council elections in May 2022, the Council has agreed the formation of a joint Administration between the Scottish National Party (SNP) Group and the Highland Independent Group which replaced the previous coalition Administration of Independent, Liberal Democrat, and Labour. Following the election, the Council is in the process of implementing a wide-ranging member training programme focusing on induction of new Members.</p> <p>Recovery Board</p> <p>In response to the Covid-19 pandemic, the Council established a Recovery Board (subsequently Recovery, Improvement and Transformation Board) initially to offer strategic oversight of the delivery of the Council's recovery plan before assuming responsibility for the coordination of all elements of the recovery activity with transformation activity and financial planning. As the Council has moved into recovery from the pandemic and services return focus on operational performance, the Board has been disbanded.</p> <p>Governance – Health and Social Care</p> <p>In August 2022, a meeting of the Council and NHS Highland's Joint Monitoring Committee took place. This committee seeks to support a strategic approach to delivering health and social care services across the Highlands. While still in its infancy, the papers and discussion at the Committee (via minute review) appeared open, highlighting the financial challenges facing the health and social care partnership and how both parties were committed to supporting the development of integrated strategic planning.</p>	<p>Governance and transparency arrangements remained effective during the year.</p> <p>The Council has reflected on the need of strategic working with key partners, including NHS Highland. This is reflected in the Highland Council/ NHS Highland Joint Monitoring Committee which oversees the strategic working arrangements between the Council and Board.</p>

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Governance and transparency (continued)		<p>Response to significant risk (continued):</p> <p>Senior Leadership</p> <p>The Highland Council leadership structure has been in place since 2019 with the Chief Executive supported through Executive Chief Officers.</p> <p>In 2021, the Council approved the creation of a Deputy Chief Executive role to further support the Leadership of the Council. This position has yet to be filled on a permanent basis. Given the financial pressures facing the Council the recruitment of a Deputy Chief Executive is on hold, as of September 2022. However, in the absence of the deputy Chief Executive role, roles have been delegated to an Executive Chief Officer, to fulfil, in their absence. A small additional remuneration has been made, to recognise the deputising role.</p> <p>In June 2022, the Executive Chief Officer – <i>Resources and Finance</i> left the Council. The Section 95 responsibilities have currently been assigned to the Head of Corporate Finance. The need to recruit, or consider the current structures, will be subject to review with an update paper to be considered by the Council in October.</p> <p>The pay bands for the Executive Chief Officers, are in line with pay bandings set by COSLA. Based on our work on the remuneration report we noted the current salaries may be below those paid at other Scottish Local Authorities, in similar leadership positions. There is also a differential between the salary of the Chief Executive and the Executive Chief Officers. The need to review pay, across the Council, at all bands, in the context of increased cost of living pressures, whilst also making financial savings is recognised. At a suitable time, this could be considered in the wider Council leadership structure, to support recruitment.</p>	<p>The Council now has a stable leadership team. The leadership team structure, and salary bandings will be reviewed, as appropriate, within the context of the financial climate the Council is operating in, and the future financial pressures.</p>

Wider scope dimension	Audit Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Value for money</p> <p>Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Significant risk identified:</p> <p>We will review arrangements in place by Highland Council in relation to partnership working and the controls the Council has in place to ensure value for money.</p>	<p>Community Engagement</p> <p>The Council recognises the need to enhance community engagement. In December, the Community Planning Partnership Board agreed a new approach and financial model for resourcing Community Planning. This included the appointment of a full time Partnership Development Manager and 5 Partnership officers who could be appointed on a funded or secondment basis.</p> <p>The Council has agreed a Place Based Framework for considering service delivery and local priorities. The Council has sought engagement with partners, in aligning community planning and the wider approach to place planning and local priorities.</p> <p>Some Community Partnership areas within Highland have already adopted this wider approach to local priorities – for example Nairn – and in other areas, such as Easter Ross, it is proposed that the development of a Place Plan for the area is progressed through the Community Partnership and alongside the refocus of locality planning within the area.</p> <p>This wider approach to local prioritisation should enable a focus to remain on people and addressing socio-economic inequality but takes a broader consideration about the interlinking elements of infrastructure, investment and development providing opportunities for improving outcomes for local people. It also aligns with the refocused approach to locality planning which is area based and allows broader thematic approaches to priorities across an area.</p> <p>An important aspect of Community planning is around ensuring decision making is transparent. Where there is local planning focused on Place, it is important that meetings and decision making is documented and transparent. The additional resource should support this.</p>	<p>The Council recognise the importance of community engagement and partnership working. The Council has sought to revise its working arrangements and investing in community planning arrangements. We welcome the developments in this area but recognise further work is required.</p>

Wider scope dimension	Audit plan risk	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)		<p>Integration of Health and social care and Covid-19</p> <p>The Council's partnership arrangement with NHS Highland continue to evolve. The Council and NHS Highland adopt a Lead Agency model in the delivery of health and social care in the region. Highland Council is the lead agency for the delivery of children's services, and NHS Highland adult health and social care service. The Integration Scheme was signed in March 2022, this has been updated and refined to support effective partnership working.</p> <p>The Joint Monitoring Committee has oversight of the partnership arrangements and governance over the delivery of delegated services. This committee also has oversight of finance and delivery. The Joint Officer Group, is a multi-agency group which meets monthly and supports the implementation of the Integration Scheme. In renewing the Integration Scheme, the Council and health board have demonstrated a continued commitment to effective partnership working and a strategic approach to delivery of health and social care in the region.</p>	<p>The Council continues to develop its relationship with key partners in the region. While the new Integration Scheme with NHS Highland is in its relative infancy, there is a clear commitment to partnership working.</p>

Risk area (planning guidance)	Wider scope audit response and findings	External Audit conclusion
<p>Equal Opportunities</p>	<p>We have considered, at a high level, how the Council ensures it delivers fairness and equality. This includes tackling poverty, reducing inequality and promoting fairness, respect and dignity for all citizens. These are key priorities for local authorities and their partners, including local communities.</p> <p>The Council continues to demonstrate a commitment to deliver fairer outcomes for staff and the people of the Highlands. The Council has set key equality outcomes, refreshing every four years, which are based on local and national priorities. The Communities and Place Committee is responsible for monitoring the equality outcomes.</p> <p>As required under the Specific Equality Duty Regulations (Scotland) 2012, the Council reports every two years on progress on equality. This is reported to committee and is publicly available on the Council website.</p> <p>The Council continues to look to engage with key stakeholders and groups to improve accessibility and use of services. This includes</p> <ul style="list-style-type: none"> • Involvement of disability access panels in Highland. • Engagement with Children and Young People and their families. • Regular engagement and communication with tenants, including a disabled tenant's group, with residents on travelers' sites and refugees (including the use of interpreters where needed). • Engagement with the deaf community on communication support. 	<p>The Council complies with the Equality Duty Regulations (Scotland) 2012 Act.</p> <p>Information on equality including the Council's equality outcomes are available on the Council website and are considered by the Communities and Place Committee.</p> <p>This continues to be an important area for the Council, and for local communities who are seeking to understand and influence the Council's arrangements.</p> <p>There is a clear link, to equalities and the Council's community engagement plans.</p>

Wider scope
dimension

Plan
risk

Wider scope audit response and findings

External Audit conclusion

**Equality
(continued)**

The Council recognise the challenges it faces in engaging with a large dispersed and diverse population.

The Council uses a wide range of methods to engage with communities. This includes surveys, a Citizen's Panel, formal and informal consultation with groups, consultations with elected members, Community Councils, Local Community Partnerships, pupil and parent engagement in schools, tenant engagement, and our day-to-day contact with customers.

However, the Council recognise that further work is required to enhance community engagement. The Council aims to improve engagement through the development of area place plans to enhance involvement in local communities.

This includes a commitment to taking a participatory resourcing approach to developing local priorities. To help facilitate this, the Council has committed to developing an online portal to support both communication and engagement with local communities. This is to be delivered under the Council's Transformation programme.

The Council has a process in place to consider equality and socio-economic disadvantage (including rural and island impacts) in the review and development of policies, practices and decision (Impact Assessments) and record the outcome for relevant committee reports. However, the practice of carrying out impact assessments is inconsistent. Some regard is given but there is a greater understanding in some services than others. In addition, the Council recognise the need to ensure a consistent approach is adopted to undertaking impact assessments, including ensuring officers involved are appropriately trained and that there is wider staff awareness of requirements to assess all new and reviewed policy regarding equality

[see Wider Scope Action Plan recommendation 3]

Risk area (planning guidance)	Wider scope audit response and findings	External Audit conclusion
<p>Procurement – fraud and irregularity risk</p> <p>In accordance with Audit Scotland’s planning guidance, we considered the risk of fraud and corruption within the procurement function.</p>	<p>Highland Council is part of the Commercial & Procurement Shared Services (C&PSS), a shared service agreement with Aberdeen City Council and Aberdeenshire Council. The Shared Service is overseen by the Strategic Procurement Board. The board is comprised of Senior Leaders from across the 3 Councils and has responsibility for the oversight of the delivery of the services.</p> <p>While we have not identified any instances of fraud or irregularity, the Council has recognised that improvements are required to procurement arrangements at the Council.</p> <p>The Transformation Programme: <i>Procurement & Contract Management</i> aims to improve procurement practices including improving operational and governance arrangements and prospects for greater savings for the shared service.</p> <p>In November 2021, the Council’s Internal Audit Function reported on Off-Contract procurement spend. This identified opportunities for enhancing procurement arrangements, including controls over ensuring complete and accurate procurement records (contracts register) to ensure all procurement processes are consistently followed and that the Council are securing value for money. A follow up review is planned in this area and a further wider procurement review is part of the Internal Audit plan.</p> <p>It will be important that the Council acts upon the findings from Internal Audit ensuring that procurement arrangements provide effective governance and control and demonstrate value for money.</p>	<p>Through our audit procedures we have not identified any significant risks or deficiencies in relation to the Council’s arrangements over fraud and corruption within procurement.</p> <p>Future work planned by internal audit in this area will support assurances to the Council on how best value is obtained, from procurement, and where improvements can be made.</p>

Risk area (planning guidance)	Wider scope audit response and findings	External Audit conclusion
Climate Change	<p>There is a greater focus on climate change, by users of the financial statements, including stakeholders, and what action the public sector organisation is taking to positively address climate change.</p> <p>In September 2022, the Accounts Commission published a report “Scotland’s Councils approach to addressing climate change”. This highlighted the important role that Council’s play in climate change. It recognises that Council’s produce the largest of the carbon emissions, across the public sector in Scotland. The report also goes on to highlight the important role that the Council will play in working with communities to help mitigate and adapt to the impacts of climate change, for example an increase in extreme weather events. This also includes Council’s considering the adequacy of their plans and clear actions, to address the climate change targets set.</p> <p>The annual report and account sets out that Highland Council declared a climate emergency in 2019. As set out in the Climate Change (Scotland) Act 2009 Council’s have a legal duty to support national efforts in tackling climate change.</p> <p>Highland Council has established a Net Zero strategy. In June 2022, the establishment of a Climate Change committee was approved. This committee will:</p> <ul style="list-style-type: none"> - Provide oversight of the Net Zero strategy and action plan - Support the scrutiny of performance targets and identifying further action - Overview of the wider climate change programme and associated action plans <p>The Committee will feed back into full Council.</p>	<p>The Climate Change Committee should consider the Accounts Commission publication and how this can support the Committees aims and objectives.</p> <p>As the Committee is just being established it is too early to comment on its effectiveness in supporting scrutiny of the Council’s Net Zero strategy. This will be an area of focus for external audit in 2022/23 and beyond.</p>

Wider scope dimension	Wider scope audit response and findings	External Audit conclusion
Statutory Performance Indicators	<p>The Council continues to develop its performance management arrangements, including transparent reporting of its corporate performance during the year.</p> <p>In accordance with SPI 1, the Council is required to report on: performance in improving local public services, provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities; and progress against the desired outcomes agreed with its partners and communities. Under SPI 2: Demonstrating best value the guidance requires authorities to report on:</p> <ul style="list-style-type: none"> • The council's assessment of how it is performing against its duty of Best Value, and how it plans to improve against this assessment; • audit assessments of its performance against its Best Value duty, and how it has responded to these assessments; and • how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities. <p>The Council reports Statutory Performance Indicators and the Local Government Benchmarking Framework (LGBF) in March each year to meet the requirement of the Audit Direction enabling a focus on performance of the whole Council. SPIs in line with the Audit Direction are determined locally and drawn from Local Government Benchmarking Framework and Local Performance indicators giving a high-level overview of Council Performance.</p> <p>The performance information in which to benchmark is often delayed at a national level and therefore the reporting is often a year out of date. The information reported in March 2022 relates to year ended 31 March 2021. Covid-19 has had a significant impact on how the Council can monitor information. As a result, of the 99 SPIs reported in March 2022, 17 do not have data for which can be reliably measured, in the view of the Council. The Council reports performance through Service Committees during the year as well as publishing performance information on the website. In September, each year the Council receives an annual performance report on its Corporate Plan across a set of KPIs drawn from its SPIs and LGBF providing a focused report on the delivery of the Council's priorities.</p>	<p>As set out in the published performance report, Covid-19 has impacted on the Council's performance. Therefore, it is difficult to compare performance over the last two years or identify underlying trends in performance.</p> <p>The alignment between the new Corporate Plan and the performance framework will be key, to supporting the Council in evaluating performance year-on-year and its related improvement actions.</p>

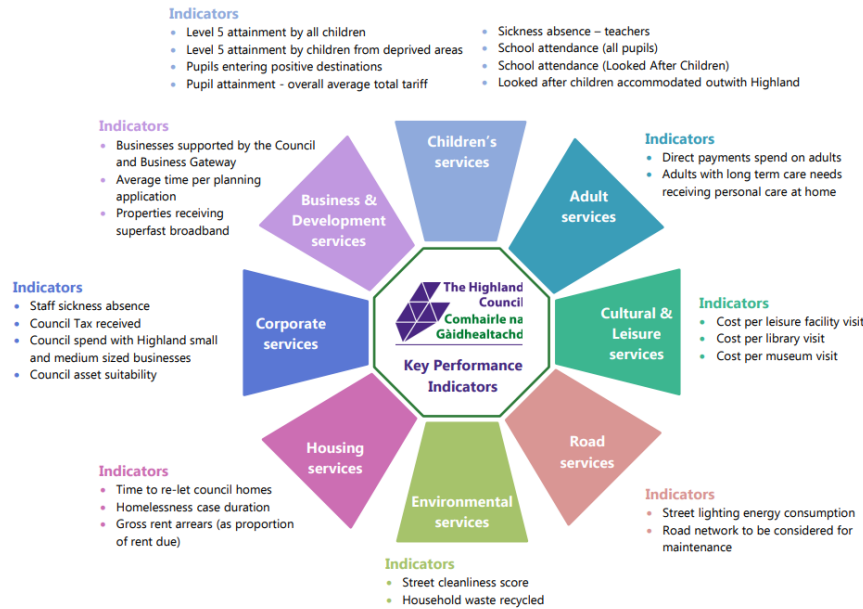
Wider scope dimension

Wider scope audit response and findings

External Audit conclusion

Value for money (continued)

The Council has identified 27 SPIs that the Council considers KPIs. These are indicators deemed to provide a high-level overview of the Council’s performance and determined to evidence effective delivery functions.



The Council reported the significant impact on the KPIs for 2020/21, in most cases leading to a decrease in performance of services as these were disrupted or stopped due to the pandemic. 2022 represented the final year of the Council’s existing Corporate Plan. While this would normally be an ideal time to reflect upon the delivery against the plan, the final two years of the plan were significantly impacted by Covid-19, with the Council’s focus on the response and recovery from the pandemic. This has impacted on the effectiveness of performance monitoring and scrutiny as it is challenging to measure and baseline targeted performance. It will be important that going forward the Council seek to establish a new Corporate Plan, supported through measurable targets and indicators to support delivery.

[see Wider Scope action plan recommendation 4]

Wider scope dimension	Audit plan risk	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)	<p>Significant risk identified:</p> <p>A Best Value review was undertaken by Audit Scotland and Grant Thornton during 2019 and the Best Value Assurance Report (BVAR) was issued in January 2020. The review found that the Council's pace of change had been inconsistent and slower in areas such as improving performance management and ensuring longer term financial sustainability. There was however recognition that the pace of change had significantly increased with the appointment of the Chief Executive in September 2018. The BVAR highlighted the persistent challenge faced by the Council in demonstrating that it is financially sustainable, as well as its ability to build its level of reserves to meet unplanned costs. The BVAR also reflected on the management restructure and the need for a period of stability to deliver the Council's change and improvement strategy.</p> <p>A BVAR Improvement Plan was approved in March 2020 and we have followed up on the Council's progress as part of our 2021/22 audit.</p>	<p>Response to significant risk:</p> <p>Covid-19 has continued to impact on progress in implementing the plan. However, during the year good progress has taken place, with further actions completed. By end of 2021/22 80% of actions were either complete or on target. This compares to the 67% reported in our 2020/21 Annual external audit report.</p> <p>The Council's action plan included 27 improvement actions. 17 are reported as complete and 3 on target. 6 actions have had some slippage and 1 reported as having no significant progress.</p> <p>The detail against each of the actions within the BVAR plan are set out in the following slides.</p>	<p>The Council continues to demonstrate positive progress against the BVAR action plan. Progress is reported to the Council, annually with the last update being September 2022.</p> <p>In addition to the actions, Officers have identified further developments which have been built into the current reporting. Continuing to enhance how the Council capture and monitor how it delivers Best Value and the assurances it can provide.</p>

Best Value Assurance Report Follow up

In September 2022, the Council reported the progress made in implementing the agreed BVAR Improvement Plan. The Table Below summarised our external audit assessment of the progress made by the Council to date. We consider the outstanding actions, as identified by Officers in the Council's BVAR Improvement plan as well as any further areas for development.

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
The Council needs to seek to ensure that all staff are fully engaged in the transformation programme and that budget holders are clear on expectations to deliver the planned savings set out in ongoing transformation work. The council should continue to develop and implement a longer-term delivery model which is affordable and achievable.	Of the 7 underlying actions, 4 are complete, 1 on target, 1 with slippage and 1 red (no significant progress).	<p>The one with no significant progress relates to the review of the finance training modules and establishing mandatory financial training, for all budget holders and Members. A revised date has been set as March 2023.</p> <p>The one with slippage is to review the approach to financial and performance monitoring reports to Strategic and Area Committees and develop an integrated approach to effective performance monitoring and continuous improvement. This will be tied through into the development of the new Corporate Plan, and where improvements can be linked.</p> <p>Activities taking place include:</p> <ul style="list-style-type: none"> - Regular reports on budget and financial position - The Executive leadership team meeting weekly considering governance, resources and performance matters - Governance is managed at the Performance and Governance Board, Capital programme board and the Change and Improvement Board 	<p>Further actions identified by Officers include:</p> <ul style="list-style-type: none"> - Updated financial management training - Service planning guidance continues to be reviewed. Finalised service plans will be submitted to strategic committees once the Corporate Plan is in place for 2023/24 (Spring 2023) - Further work on medium to longer term financial planning

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
The Council should increase the use of family grouping data, benchmarking and targets to enhance performance reporting.	<p data-bbox="456 475 689 544">Complete / on target</p> <p data-bbox="456 592 689 699">Implementation Date: February 2022</p>	<p data-bbox="703 475 1765 740">The Council has made good progress in implementing the actions outlined in the BVAR Improvement Plan in response to this recommendation. The Council's revised Corporate planning process articulates trend data, family and national benchmark positions resulting in targets being set focusing on improvement against the Council's national benchmark positions. This approach has resulted in enhanced performance reporting as reflected in Service Performance Reports and annual performance reporting.</p> <p data-bbox="703 788 1765 932">The Council has revised its Service Planning guidance to clearly align to the requirements of the Corporate Plan. Work continues to improve the use of data to inform improvement planning and performance reporting to Strategic Committee linked to the improvements now agreed through Service Plans.</p> <p data-bbox="703 979 1765 1123">The one action reported by Officers as having some slippage in year was the planned focus improvement activity on young people from deprived backgrounds to close attainment gaps. Action in this area has been re-prioritised for 2022/23 with an implementation date of April 2023.</p>	Coming out of Covid, with enhanced performance data and reporting, greater information will be available to support the Council in assessing performance. Education continues to be a key focus for the Council, recognised in the BVAR update.

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Council's approach to performance management can be further improved through sharing of practices between services and council teams in order to fully embrace and support effective self-assessment and a culture of continuous improvement.</p>	<p>All actions complete with the exception of one which has a slight delay, due to Covid, but has been classed as ongoing.</p>	<p>Through the Executive and wider Senior Leadership team there is focus on challenge and discussion around service delivery and performance, sharing of good practice across Council services. In particular, all ECO's and senior managers will develop a programme of external learning to support continuous service improvement and learning.</p> <p>Activities to date include: Improvement Service briefings to the Leadership teams, briefing on the Public Services Improvement Framework as a self-assessment model, networking with other Council's in particular during Covid and continued participation in LGBF, as part of an annual programme.</p>	<p>A series of arrangements are in place to support the leadership team and the Council self-assess its performance, and how the Council can continually learn.</p>
<p>Once the council has implemented the revised governance arrangements, it should seek to monitor the effectiveness of these changes to ensure they deliver the improvements anticipated, including the intended enhanced scrutiny and decision-making.</p>	<p>Complete / on target</p> <p>Revised implementation date: Complete</p>	<p>As reported in prior year this section of the action plan is now complete. Governance arrangements will be kept under review to ensure continued effectiveness, in particular of the Council sub-committees and supporting working groups.</p>	

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>Once the new leadership team is in place, it will be key that they look to successfully manage the need for increased pace of change alongside continued engagement across officers to achieve the strategic objectives and this should be reviewed and evaluated on an ongoing basis.</p>	<p>Implemented subject to the planned review of the senior leadership structure, planned for October 2022.</p>	<p>Phase 1 and 2 a) are complete, with budget and savings alignment reflected in the roll forward budgets for 2022/23 and the new structure likewise reflected in the draft Directorate Service Plans that are being approved through the current cycle of committees.</p> <p>Given the financial crisis and the need to review staffing around opportunities to reduce, reshape and review the workforce this needs to also be applied to the Council's senior management structure. Therefore, a report will be brought to Council on 27 October 2022 seeking Member approval to implement changes to the senior management structure to support the Council focus on continuous improvement ensuring a resilient and sustainable future Council.</p>	<p>See action plan point on future of leadership structure, recognising the action the Council has set out, in the BVAR update to the Council in September 2022. The structure will be reviewed in the context of the financial challenges the Council is facing.</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Community Planning Partnership (CPP) should increase the pace in developing the remaining locality action plans in line with the requirements of the Community Empowerment Act.</p>	<p>Completion of improvement action plan set for April 2023 or earlier and is in line with the development of a broader place plan for the area.</p>	<p>The CPP Board reviewed its approach to locality planning approving a revised approach from November 2021. This resulted in one locality plan per partnership. A Community Support co-Ordinator is in place, and taking this forward for the Inverness area. This will result in the appointment of a partnership chair for the City of Inverness area committee in September 2022, where a gap previously existed.</p> <p>All other locality plans have been established. A terms of reference is in place for Community planning Partnerships, to support governance, accountability and the delivery of outcomes.</p>	

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The council should continue to work with elected members to understand reasons for variable uptake of training and agree how this can be improved alongside a programme of ongoing elected member development. In particular, elected members' knowledge of and involvement in the performance management process needs to be improved to enhance scrutiny and help drive improvement.</p>	<p>Complete / on track</p>	<p>A members survey was issued in 2022 focused on members training and induction and this informed the programme of induction training that commenced in May 2022 post the elections. The programme has provided interactive sessions including workshops on the Council Directorates, Committees, Code of Conduct, Local Government Finance, media and communications. Sessions have been available to new and returning members.</p> <p>In addition there is a range of online training and development support.</p> <p>A further members survey will be issued in Autumn 2022 which will inform the future rolling programme.</p>	

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no uncorrected misstatements to the financial statements identified during our audit.

Impact of adjusted misstatements

We can confirm that there were 4 adjusted misstatements greater than £250,000 during the 2021/22 audit

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
<i>Being council house componentisation correction.</i>		
Dr Losses on the disposal of non-current assets	3,531	
Cr Service expenditure	(3,531)	
<i>Being correction to capital grants accrued and carried forward.</i>		
Dr Short term debtors		808
Cr Service income	(621)	
Cr Short term creditors		(187)
<i>Being amendment made to draft accounts to correct the duplicate elimination of internal recharge transactions recorded in error [Identified by the finance team]</i>		
Dr Service expenditure	23,624	
Cr Service income	(23,624)	
<i>Being correction for assets not yet disposed of as at 31st March 2022.</i>		
Dr Property, plant and equipment		1,920
Cr Losses on the disposal of non-current assets	(714)	
Cr Short term creditors		(1,206)
Overall impact	(1,335)	1,335

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

Disclosure	Auditor recommendations	Adjusted?
Balance Sheet	The prior year restatement of the cash and cash equivalents – bank overdraft should not be restated, as the impact is not material. It was recommended this restatement be removed from the prior year comparatives.	Yes
Accounting Policies	LGPS disclosure does not adequately describe the basis of valuation for each type of pension fund asset. It is recommended this is included within the note. The PPE policy incorrectly stated that components were measured at historical and that a transfer is made from the revaluation reserve to the CAA, where this should be the general fund / HRA. It is recommended these were amended within the note.	Yes
Estimation uncertainty	The disclosure of estimation uncertainty should cover those areas where there is a significant risk of material change over the next 12 months in the estimation due to the sensitivity / nature of the estimate. The depreciation note does not appear to represent a major source of estimation uncertainty. Similarly arrears does not appear to be material. It was recommended these elements be removed from the disclosure narrative.	Yes
Cash Flow Statement	It was recommended that narrative be provided to explain to the reader the need to restate the prior year cash flow statement.	Yes

Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Note 12. Unusable Reserves	Impairment losses not charged to the Surplus/Deficit on the Provision of services had not been updated from the prior year. This also impacted the balancing figure above for Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of services. It was recommended this was updated to reflect current year figures	Yes
Service Income and Expenditure Note and Segmental Income Note	These notes are not required under the Code and are not deemed to be adding additional relevant information for readers of the accounts. It was recommended they were removed from the annual accounts.	Yes
Note 18. Expenditure & Income Analysed by Segment and Nature	£60.634m was identified within the Fees, charges and other service income line which related to contributions and therefore should be disclosed within the Government grants and contributions line. No financial impact, as a disclosure reclassification only. A similar existed in the prior year meaning the prior year note should be restated.	Yes
Note 23. Defined benefit pension schemes	The movement in reserves section of the note disclosed adjustments between the accounting and funding basis for group entities which did not apply to group entities and which were not reflected in the group MiRS. It was recommended the group disclosures in this table be removed.	Yes
Note 25. Related Parties	<p>Additional information was also required to meet the requirements of IAS 24 to disclose material transactions and outstanding balance with related parties. It was recommended transactions with HLH and outstanding balanced with NHS Highland and Pathfinder North and Swan</p> <p>The figure disclosed for both prior and current year amounts paid to NHS Highland were incorrectly disclosed at £102.057m and £106.723m respectively. These should have been stated as £100.904m and £105.328m respectively.</p>	Yes

Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Note 27. Property, plant and equipment	The prior year closing NBV of Property, plant and equipment was misstated due to a typographical error. It was recommended this be restated and a note added explaining the error. Additionally, as stated in the main report, the disclosure for Infrastructure assets required amending in line with the Statutory Override issued by Scottish Government, allowing the NVB to be reported only.	Yes
Note 40. Grant Income	It was not clear to the reader how the figures in Note 40 reconciled to the grants and contributions recorded in Note 18. It was recommended a reconciliation be added between the notes.	Yes
Remuneration Report	The report initially stated that all information in section 1 and 3 is audited. This is not the case. It was recommended that this was updated to confirm only numerical information is audited.	Yes
General Disclosure by Pay Band	There were various errors in the bandings not agreeing to underlying payroll records. It was recommended these were amended to reflect underlying records.	Yes
Group Accounts	The equity basis of consolidation requires a specific line for associates and joint ventures accounted for on an equity basis, that is positioned after the surplus or deficit on the provision of services.	Yes
Group Accounts	The group CIES included the line 'Operating results associates. This was not in accordance with the Code and should be relabelled as Associates accounted for on an equity basis.	Yes

Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Group Accounts	The equity basis of consolidation requires these to be reported as 'Share of Other Comprehensive Income and Expenditure of associates and joint ventures' – not as part of the 'remeasurement of the net defined benefit liability'. It is recommended that their share is reported separately under this heading.	Yes
Group Accounts	HighLife Highland has a specific pension reserve as required under the charity SORP. However, this reserve is not required for the local authority under the Code as for the charitable company this is effectively a usable reserve. Therefore, the pension reserve attributable to HighLife Highland should be included as part of the useable reserves in the group accounts.	Yes
Restatements	There were a number of prior year comparatives within the financial statements and disclosure notes that had been restated. However, given the restatements were not material to users of the accounts, it was recommended that these balances were not restated. Where amounts have been restated, it was recommended information on the nature and amount of the restatements be added to comply with IAS 8.	Yes
Accounting Policies	Current accounting policy does not appear to cover the requirement of IFRS 15 including identifying material revenue streams (contracts with customers) and performance conditions on how revenue is recognised. We have found no concerns with the underlying accounting treatment however it is recommended that the policies are enhanced to fully comply with IFRS 15.	No – not considered material to the financial statements. This should be reviewed in 2022/23 when preparing the accounts.
Expenditure and Funding Analysis	The EFA should start with information reported to decision-makers. Information in the EFA includes Evergreen/Landbank spend which does not get reported to decision-makers	No – future final outturn reports will incorporate Evergreen and Landbanking impact on general fund.

Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Fair Value Hierarchy	Details on fair value hierarchy was included within the accounting policy relating to financial instruments. It was recommended for this to be included in the Financial Instruments notes rather than the accounting policy. There is also opportunity to improve the clarity of Fair Value hierarchy disclosures through disclosing each ass/liability and their fair value within one location in the accounts.	Partly – there is room to further improve the clarity of disclosures.

2. Action plan and recommendations – Financial statements audit

We have set out below, based on our audit work undertaken in 2021/22, the significant recommendations arising from our financial statements audit work:

Recommendation

Agreed management response

1. Valuation Assumptions

Council dwellings are valued by an external valuer, the District Valuer. Land and Buildings continue to be valued by the in-house valuer. On review of the valuation movements in year there is a marked different to valuation trends in Council Dwellings to those in Land and Buildings. We appreciate the different nature of these assets. However, the Council should continue to challenge the assumptions of both valuers, to understand why there is likely to be a different valuation trend, or whether the data indicates a further review of assumptions, particularly within the Land and Building valuation for 2022/23.

Management response: The council will review valuations provided for Council Dwelling and Land and Building and consider the appropriateness of assumptions used.

Action owner: Council Finance Team

Timescale for implementation: April 2023

2. Infrastructure Assets

The Council should review its arrangements for recording Infrastructure assets and the level of detail, to support additions, disposals and derecognition once the statutory override is removed. Alongside this we would recommend a full review of the UELs and ensuring that management can justify the UEL determined, and how this is evidenced.

Management response: The Council will request that engineers review the UELs of the infrastructure assets. The consultation on the future accounting of the infrastructure is still ongoing and the Council is participating in this by providing information as requested by CIPFA to assist with this.

Action owner: Council Finance Team

Timescale for implementation: September 2023

Recommendation

Agreed management response

3. Critical judgements and assumptions

Officers should review the critical judgements and estimates note in the Accounting policies to ensure the disclosures fully comply with the IAS 1 requirements. This includes whether there is a critical judgement and estimate which impacts on the financial statements, in a material way, that the user of the financial statements should consider.

Management response: Guidance will be reviewed and disclosures adjusted accordingly

Action owner: Council Finance Team

Timescale for implementation: March 2023

4. Related party transactions

Officers should review the related party disclosure note within the annual report and accounts. We think this could be further enhanced to fully comply with IAS 24 and take into account the Audit Scotland good practice note on disclosing related parties.

Management response: Guidance will be reviewed and disclosures adjusted accordingly

Action owner: Council Finance Team

Timescale for implementation: March 2023

5. Review of valuation reports

Officers should review valuation reports in detail when received from their expert valuers to ensure the report is in line with expectation and there are no errors that go unidentified.

Management response: The Council requests that the valuers review any valuations that have increased or decreased by more than the trivial materiality amount of £250k to ensure there are no errors.

Action owner: Council Finance Team.

Timescale for implementation: Financial year 2022/23

6. Bank reconciliations

During our audit work we identified an instance where the bank reconciliation of the payroll bank account was not reviewed by a secondary individual. Officers should ensure all bank reconciliations are reviewed by a secondary individual and that a consistent approach is taken across all reconciliations.

Management response: The Council had not required this reconciliation to be reviewed by a secondary individual as it is completed by a chartered accountant but will ensure another accountant will provide a secondary review going forward

Action owner: Council Finance Team

Timescale for implementation: April 2023.

3. Wider scope Action plan and recommendations

We have set out below, based on our audit work undertaken in 2021/22, the key recommendations arising from our wider scope audit work:

Recommendation	Agreed management response
<p>1. Finance Team capacity</p> <p>Once the S95 Officer is appointed, there is a further review of the capacity within the finance team and where necessary, recruitment takes place to fill any gaps identified. We recognise, for Highland Council, the recruitment market is challenging.</p>	<p>Management response: Capacity within the team will be reviewed, with a focus on identifying the priority work to be done, ensuring that work can be done in as efficient a manner as possible (including through optimal use of systems) , and making sure that sufficient staffing resources are in place to deliver that work.</p> <p>Action owner: Section 95 Officer</p> <p>Timescale for implementation: March 2023</p>
<p>2. Longer Term financial planning</p> <p>The Council has yet to approve saving plans beyond 2022/23. Once the new Corporate Plan is developed, following the May 2022 elections, there is the opportunity to look to align current and future savings plans, in the context of the Corporate Plan. The revised plans will need to reflect the significantly challenging financial climate the Council is operating within, and link to service plans, where a change or reduction in service will be needed, to achieve longer-term financial balance.</p>	<p>Management response: The Council recognises the need to align medium term financial plans with the Council Programme, Corporate Plan and Service plans. As reported to the September 2022 Council meeting the Council faces a short term challenge of a significant scale. Draft directorate service plans (taken to August/September 2022 strategic committees) reflect the current financial context and will be updated to reflect the emerging Council Programme, Corporate Plan and the impacts of future budget savings. Medium Term Financial Plan reports will continue to be regularly presented to Council.</p> <p>Action owner: Chief Executive/S95 officer/Executive Chief Officers</p> <p>Timescale for implementation: March 2023</p>

Recommendation

3. Equality impact assessments

The Council has a process in place to consider equality and socio-economic disadvantage (including rural and island impacts) in the review and development of policies, practices and decision (Impact Assessments) and record the outcome for relevant committee reports. However, the practice of carrying out impact assessments is inconsistent. Some regard is given but there is a greater understanding in some services than others. In addition, the Council recognise the need to ensure a consistent approach is adopted to undertaking impact assessments, including ensuring officers involved are appropriately trained and that there is wider staff awareness of requirements to assess all new and reviewed policy regarding equality.

Agreed management response

Management response: The process and guidance will be reviewed to ensure there is a consistent approach to EQIAs. This will include reviewing training and improving awareness of the requirements. This will also support the requirement to undertake Impact Assessments at the start of the development or review of any policy or its related practices. Outcomes from the assessment will also help inform their finalisation.

Action owner: Head of Community Support and Engagement

Timescale for implementation: June 2023

Recommendation

4. Performance management

The final two years of the plan were significantly impacted by Covid-19, with the Council's focus on the response and recovery from the pandemic. This has impacted on the effectiveness of performance monitoring and scrutiny as it is challenging to measure and baseline targeted performance. It will be important that going forward the Council seek to establish a new Corporate Plan, supported through measurable targets and indicators to support delivery.

Agreed management response

Management response: The current approach to the Corporate Plan agreed by Council in 2019 will continue. This will see the new Corporate Plan reflecting the Council Programme (political priorities) and the strategic operational priorities of the Council. This will be set within a performance framework for delivery built from the Council's SPIs and national benchmark indicators (LGBF) with stretch targets agreed with Members. Annual reporting of the Corporate Plan through an Annual Performance Report to Council each September will continue.

Action owner: ECO Performance and Governance

Timescale for implementation: March 2023

4. Follow up of prior year recommendations

We have set out below, our follow up of prior year agreed recommendations and management's progress in implementation:

Recommendation	Agreed officer response
<p>1. Operating Leases</p> <p>During our testing of Operating Leases, it was noted that for a number of operating leases the original, underlying lease documentation could not be located and provided to the audit team by Officers due to the operating leases being aged and of a historical nature. As the authority is due to transition to IFRS 16 Leases on 1 April 2022 it is important that Officers are able to identify all lease agreements and arrangements in place, in order to fully comply with the new accounting standard.</p> <p>We recommend that management review the requirements of IFRS 16 to ensure they are ready for the transition in the next financial year and the required presentation and disclosures in the 2022/23 annual accounts.</p>	<p>Accepted</p> <p>Responsible Officer – Head of Corporate Finance</p> <p>Implementation Date – April 2022</p> <p>Follow up as at September 2022: CLOSED. The implementation of IFRS 16 has been delayed in Local Government until 2024. This is an area external audit will consider in future years.</p>

Recommendation

2. Related Parties

We noted in our review of Related Parties that management requested that Councillors confirm to them who they consider to be related parties, however the responses to these requests were not formally monitored and reviewed by management or subsequently considered by management during the preparation of the Related Parties note within the annual accounts (Note 28). Management also confirmed that no formal review of the ledger took place at year end in order to identify all potential related party transactions taking place during the financial year. It was also confirmed that no register of interest is maintained for Senior Officers, however we note that management do issue requests to Senior Officers to confirm their related parties, similar to the way in which requests are made of Councillors (as detailed above). Whilst our testing of related parties and related party transactions did not identify any omissions or misstatements, we note that management do not have controls and processes in place in order to gain comfort that the related parties disclosure within the annual accounts is complete.

We recommend that going forward management monitor responses from Councillors and Senior Officers to ensure that all responses are returned and to consider whether the responses returned indicate new related parties. We recommend that management undertake a review of the ledger at year end to consider the completeness of the Related Parties note in the annual accounts and we recommend that a register of interests for Senior Officers is also maintained and reviewed by management during the preparation of the Related Parties disclosure.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Governance

Implementation Date – April 2022

Follow up as at September 2022: **CLOSED**. Controls in respect of related parties have been improved in year. A follow up action has been raised, in the 2021/22 audit on disclosures which has been accepted by management.

Recommendation

3. IAS 19 Review of data to actuary

We identified differences between the estimates used by the actuary in arriving at the IAS 19 valuation and the underlying records held by Highland Council Pension Fund. Specifically we found that Highland Council's share of benefits paid estimated by the actuary was overstated by £267,000. Management subsequently obtained an updated actuarial report and this reflected the actual benefits paid in year and has been appropriately reflected in the final accounts. We also found that the Council's share of the pension scheme assets was understated. The IAS 19 report included forecast investment information for one fund manager, rather than **actual** investment values as at 31 March 2021 and as a result, the overall IAS 19 valuation for the scheme was understated. Highland Council's share of this is estimated at £6.077 million. This has been included as an unadjusted difference in our audit report, see Appendix 1.

Given the material value of the scheme liabilities and the level of estimation in the valuation, we recommend that Officers review the controls in place in relation to the review of actuary and pension data, particularly where being relied upon for the purpose of preparing accounting entries and pension disclosures at year end as part of the financial reporting process.

4. Revaluation programme

As detailed within the accounting policies and notes to the accounts, non-current assets included in the Balance Sheet at current value are revalued as at 31 March sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, and as a minimum at least once every five years. However we identified one asset in the current year that had not been revalued for a period of more than 5 years. Management confirmed that they are satisfied that this asset is not materially misstated or impaired and we are satisfied as a result of our audit procedures that the asset has not been materially misstated within the annual accounts, however we recommend that management review the procedures and controls they have in place to ensure that all land and building assets are reviewed as part of the five year programme of professional valuations going forward, in line with their accounting policy.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Finance

Implementation Date – May 2022

Follow up as at September 2022: **CLOSED**. No issue was identified in our 2021/22 external audit testing.

Accepted

Responsible Officer – Head of Corporate Finance

Implementation Date – May 2022

Follow up as at September 2022: **CLOSED**. No issues were identified within the 2021/22 external audit testing.

Recommendation

5. Common Good Investment Property

We noted during our audit of the Common Good's investment property that while the valuer documents valuation assumptions on the revaluation database, there is no formal revaluation report provided to Senior Officers to enable effective scrutiny and challenge of the valuation assumptions adopted.

To ensure there is appropriate review and scrutiny of the investment property valuation process, the annual investment property valuation should be reported through a formal revaluation report, summarising the methods and key assumptions made in the valuation as well as the scope and limitations of the valuer's work. Given the significance of the carrying value of investment property (£32.6 million as at 31 March 2021) and the level of estimation and judgement around the valuation, Officers should ensure that they have robust processes in place for effective review, scrutiny and challenge of the Common Good's investment property valuation to ensure that assets continue to be valued in accordance with the Code and RICS guidance.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Finance

Implementation Date – May 2022

Follow up as at September 2022: CLOSED.

Recommendation

6. PPE valuations – data and assumptions

During our audit of PPE valuations we identified a number of areas where the Council could enhance and improve the revaluation process, for example:

- In some instances we noted that the valuer did not personally inspect certain buildings, instead relying on the advice/observations of teams working within those buildings as to the condition of the buildings as at 31 March 2021;
- Two “system glitches” were noted whereby for two assets the valuation as per the valuation report differed from the valuation recorded in the valuation system (differences were however immaterial);
- A difference was noted between the area used for a sampled building in the valuation report and the area as per the underlying supporting documentation and this difference could not be explained and substantiated;
- It was noted that a building with a nil net book value had been demolished during the year, however Senior Officers were not aware of this matter at year end.

Given the significance of the carrying value of property, plant and equipment and the level of estimation and judgement around the valuation, we recommend that Officers review processes in place for year end for the effective review, scrutiny and challenge of the information provided in the valuation report. We also recommend that Officers perform a review of assets with a nil net book value to confirm whether these assets still exist. Where assets no longer exist they should be treated as disposals within the 2021/22 annual accounts.

Agreed officer response

Accepted

Responsible Officer – Head of Development and Regeneration

Implementation Date – May 2022

Follow up as at September 2022: CLOSED. No issue was identified in our 2021/22 external audit testing.

5. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	£263,980
Pooled Costs	£27,200
Contribution to Audit Scotland costs	£13,930
Contribution to Performance Audit and Best Value	£136,460
2021-22 Fee	£441,570
Audit of Highland Council Charitable Trusts	£1,000
Audit of Highland Charities Trusts	£1,000
Total 2021-22 Fee	£443,570

Fees for other services

Service	Fees £
We confirm that for 2021/22 we did not receive any fees for non-audit services	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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.

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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Independence and ethics (continued)

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff [that would exceed the threshold set in the Ethical Standard]

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

6. Communication of audit matters

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 below.

Our communication plan	Audit Plan	Annual Report (ISA 260)
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.		•

