AGENDA ITEM 3A

REPORT NO. AS/22/21

Independent auditor's report to the members of The Highland Council and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of The Highland Council and its group for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Council-only Comprehensive Income and Expenditure Statement, Council-only Movement in Reserves Statement, Council-only Balance Sheet, Council-only Cash Flow Statement, the Council-only Housing Revenue Account Income and Expenditure Statement, the Council-only Statement of Movement on the Housing Revenue Account, the Council-only Council Tax Income Account, and the Council-only Non-domestic Rate Account, the Common Good Funds Comprehensive Income and Expenditure Statement, the Common Good Funds Movement in Reserves Statement, the Common Good Funds Balance Sheet, the Common Good Funds Cash Flow Statement, the Charitable, Educational and Other Trust Funds Income and Expenditure Account, the Charitable, Educational and Other Trust Funds Balance Sheet, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- 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.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is five years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical

Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Executive Chief Officer for Resources and Finance and The Highland Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Chief Officer for Resources and Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Chief Officer for Resources and Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Chief Officer for Resources and Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Highland Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

We have audited the part of the Remuneration Report described as audited. In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Statutory other information

The Executive Chief Officer for Resources and Finance is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to 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.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Joanne Brown (for and on behalf of Grant Thornton UK LLP)
110 Queen Street
Glasgow
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Grant Thornton

External Audit Report for Highland Council [Financial Statements Audit]

Financial year ended 31 March 2021

Annual External Audit Report to Members and the Controller of Audit

11 November 2021

Contents

Your key Grant Thornton team members are:

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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 ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2021.

Financial Statements Audit summary

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 2020/21 ('the 2020/21 Code') of the state of the Council and its Group as at 31 March 2021 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 2020/21 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).

Our audit opinion (audit report) is unmodified

The quality of unaudited accounts were good, and these were made available for inspection within the timeframe required. Our audit was carried out between July and November fully remotely for the second year. Officers and the Audit Team have worked well together to conclude the audit. Due to external audit resourcing, with certain audits taking longer than planned, there was a delay to the Council audit. As a result audit work ran into October and November. This was previously reported to the September Audit and Scrutiny Committee.

This report concludes our audit of 2020/21. We summarise the work undertaken over significant audit risks, and wider scope risks as set out in our Audit Plan reported to the Audit, Risk and Scrutiny Committee in May 2021. Our audit covers the Council and the group financial statements (Subsidiaries: Highlife Life Highland; Inverness Common Good Fund; Nairn Common Good and Joint Ventures: HITRANS and HWVJB).

We conclude that the Remuneration Report, subject to audit, has been prepared in accordance with requirements and is materially correct.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of the Council and the financial statements we have audited.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at Highland Council. The scope of our audit was set out in our External Audit Plan which was shared with the Audit and Scrutiny Committee in April 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2021;
- 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') covering: financial management; financial sustainability; governance and transparency and value for money;
- Certification of Housing Benefits subsidiary claim (due November 2021), 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 that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors appointed by the Accounts Commission are established by 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 management from its 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. Throughout the year we have continued to have discussions with Council Officers on areas which may impact on the financial statements, in particular the planned valuation changes. In being proactive we have sought, alongside Officers, to be forward looking in our approach and be flexible where required. We will act on lessons learned in this years audit, within the 2021/22 audit, our last of the six year appointment.

Audit of the annual report and accounts

Key messages and judgements

We plan to issued an unmodified audit opinion on the annual report and accounts.

We have identified 3 adjusted misstatement to the financial statements. In addition there were 8 adjustments, not made, which we do not consider to be material to the user of the accounts and agree with Officers decisions to not amend.

In addition, any areas we have identified as having a higher priority and/or potential risk to the Council we have captured in this report.

Where we have identified more minor matters these have been reported to officers via a management letter.

At the time of drafting the following audit work was being concluded:

Final Engagement Leader and Engagement Manager quality review; Final check of updated financial statements (casting); confirmation on post balance sheet events.

Our audit opinion

For the financial year ended 31 March 2021 we plan to issue an unmodified opinion – on the annual report and accounts. As reported in the independent auditor's report:

- 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 2021 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 2020/21 ('the 2020/21 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.

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 no significant or material matters to report to you in respect of the Management commentary and the Annual Governance Statement.

The audit process

The Council published the unaudited accounts for public inspection as required. The quality of the unaudited financial statements was good. Officers were clear the unaudited financial statements did not reflect the valuation of Council Dwellings due to the late receipt of the external valuation report. These adjustments have been posted by Officers in the final annual report and accounts. Our external audit work commenced in July, as set out in the plan. However, due to Covid and audits taking longer to complete remotely, a number of audits in our wider portfolio did not conclude as expected. This has resulted in the Council audit running into October and early November. This was due to external audit resourcing and not the Council.   Both teams have worked well, in a difficult environment, to be able to conclude the audit. Lessons learned will be discussed with Officers and improvements made in the 2021/22 audit, which will be our last year as your external auditor under the current appointment round.

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 communicated to the Audit and Scrutiny Committee in March 2021. We reviewed our planning assessment of materiality based upon your 2020/21 draft financial statements and concluded that materiality should remain at £9.8 million for Group (£9.5 million for Council only), representing 1% of Group gross expenditure (and 1% of Council only gross expenditure). Performance materiality was set at £5.9 million for the Group (Council only: £5.7 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 £5,000).

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 estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by Senior Officers.
	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 (Senior Officer) bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020.
	• 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
	We did not identify any evidence of management override of controls through our testing of journal transactions, or any instances of material error. We did not identify any indication of fraud and/or inappropriate management bias in accounting estimates that could result in a material misstatement.

Risks identified in our Audit Plan	Commentary
Risk of fraud in expenditure recognition Highland Council's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as the result of fraud to occur in this area. Highland Council's non-pay expenditure includes finance costs which primarily relate to interest payments and finance charges which are deemed to be well forecast and relatively consistent year on year. There is limited opportunity for manipulation of this expenditure and as such there is no perceived risk of material misstatement due to fraud in relation to this expenditure. We therefore focus our risk on expenditure excluding payroll and finance costs. Our testing includes a specific focus on year end cut-off arrangements, including consideration of the existence and completeness of expenditure accruals, where it may be advantageous for management to show a more favourable financial position in the context of reporting and the need to achieve financial in-year forecasts.	In response to this significant risk, our audit response was as follows: • Walkthroughs of the controls and procedures over other expenditure streams, being those non-payroll or finance cost related); • Substantive testing of expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording; • Focused substantive testing of Other Expenditure recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off; • Review of accruals and provisions, where material, around the year end to consider if there is any indication of overstatement or understatement of balances held at year end through consideration of accounting estimates; and • Unrecorded liability testing to confirm the completeness of year end liabilities as well as the completeness of expenditure recognised during the year. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end. [Subject to final quality review].

Risks identified in our Audit Plan	Commentary
Valuation of property, plant and equipment (land and buildings) The Council values its land, buildings and dwellings on a rolling five-year basis by the Council's internal valuer. This valuation represents a significant estimate by management (Senior Officers) in the financial statements due to the size of the numbers involved (land, buildings and dwellings held at 31 March 2020 were £2.2 billion) and the sensitivity of this estimate to changes in key assumptions. Given the value of PPE held by Highland Council and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land, buildings and dwellings. The risk is less prevalent in the Council's remaining classes of assets (vehicles, plant and equipment, infrastructure assets, community assets and surplus assets) as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. The District Valuer undertakes a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years. Our testing in relation to this identified risk will include review of revaluations made during the year, confirming valuations have been input correctly into the asset register, obtaining an understanding of the underlying data provided to the valuer to undertake the valuation and testing of this underlying data to ensure it is complete and accurate. We will discuss with Highland Council's valuer the basis on which the valuation was carried out and challenge the information and assumptions used in the valuation process. We will engage 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 valuation.	In response to this significant risk, our audit response was as follows: • Walkthroughs of the controls and procedures over the valuation of land and buildings (including Council Dwellings); • Consideration of the arrangements in place at the Council for ensuring the carrying value of land, buildings and council dwellings remains appropriate and in accordance with IAS 16; • Evaluation of the competence, capability and objectivity of the Council's professional valuers who represent management's (senior officer's) experts under ISA 500; • Testing the accounting entries processed by Senior Officers in relation to the valuation to ensure these were in accordance with the 2021 code; • Testing the data and assumptions applied by Senior Officers (and their experts) in producing the valuation estimate; • Review of the suitability of indices applied in the valuation of land, buildings, council dwellings, including challenging the reasonableness of the rates applied; • Challenged Senior Officer's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council; and • Using our auditor's valuation expert in order to challenge Senior Officer's expert as well as Officers around the valuation instructions issued and approach adopted by the Council in valuing land, buildings and council dwellings as at 31 March 2021. **Conclusion** In the prior year the Royal Institute of Chartered Surveyors (RICS) issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. Due to the impact of Covid-19 on markets at that time, the Council's valuer reported their valuation advice on the basis of 'material valuation uncertainty' and an emphasis of matter paragraph was included within the independent audit report to highlight the matter to the reader of the accounts.

Risks identified in our Audit Plan	Commentary
Valuation of property, plant and equipment (land and buildings) (continued)	The Council's valuers have confirmed that as at 31 March 2021, while it is considered that there is a degree of market uncertainty, and thus valuation uncertainty, it is also considered that the uncertainty is not material. Accordingly the 2020/21 valuation of the Council's land and buildings is not reported as being subject to "material valuation uncertainty" as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Our auditor's expert has also confirmed that this commentary, in relation to the asset types within the portfolio, is in line with the wider view across the profession at 31 March 2021 and therefore is in line with their expectations. We have concluded that the view taken by the appointed valuers is appropriate. We identified a number of opportunities to enhance the Council's revaluation process during our audit procedures. We identified an asset in the current year that had not been revalued for a period of more than 5 years and therefore did not comply with the Council's accounting policy. 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. We also identified a number of areas where the Council could improve and enhance its review and scrutiny of valuation data and assumptions used in the valuation of other land and buildings, provided by valuers to Senior Officers, 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);

Risks identified in our Audit Plan	Commentary
Valuation of property, plant and equipment (land and buildings) (continued)	• 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, it is essential that Officers ensure they have clear processes in place for the effective review, scrutiny and challenge of the Council's valuation. Action points are detailed in Appendix 2 in relation to these matters. However, based on our testing we conclude that PPE has been valued in accordance with IAS 16 and the 2020/21 Code and that PPE valuations have not been materially misstated in the annual accounts [subject to final quality review].

Risks identified in our Audit Plan	Commentary
Defined benefit pension scheme (valuation) The 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 2020 the Council had pension fund liabilities of £230.2 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 will consider the suitability 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: • From year end planning review our risk focused predominantly around the key assumptions used in the actuarial valuation, where there was an increased risk of material misstatement; • We performed walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Officers oversight of the valuation; • We considered the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment; • As auditors of the Pension Fund we obtained assurances over assets held and membership data, and employer and employee contributions in the year; • We performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectation; • We reviewed the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19; and • We evaluated the competence, capability and objectivity of the work performed by management's expert and the work performed by auditor's expert under ISA 500 (UK) and ISA 620 (UK). **Conclusion** Through our audit procedures performed 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 were overstated which resulted in an understatement of the pension liability by £267,000 (see Appendix 1). Management subsequently obtained an updated actuarial report and this reflected the actual benefits paid in year and has been appropriately reflected in the updated 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 31 March 2021 and the overall IAS 19 valuation for the scheme was therefore understated. Highland Council's share of this is estimated at £6.077 million. This has been included as an unadjusted difference in our report (see Appendix 1). No other issues were noted as a result of our detailed testing.

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 the Council 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 2020/21 Code.
- We enquired of Senior 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 Senior 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's financial statements to material misstatement, including how fraud might occur, by evaluating management's (Senior Officer's) 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 (Senior Officer) bias in determining accounting estimates. Our audit procedures involved 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 expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - The Council's 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; and
  - The Council's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Significant estimates and judgements

The Council's financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Arrears	At 31 March 2021 the Council had a balance of sundry debtors of £11.469 million. A review of balances suggested that an allowance for impairment of £3.061m 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. Furthermore the Council has an allowance for impairment of Council Tax debt (£29.584 million) and Non-Domestic Rates (£4.723 million)	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 and free from material misstatement.	● [light purple]
Public sector funding	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.	We have considered going concern, under FRC practice Note 10 and concluded the Council is a going concern.	● [light purple]

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 officer's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however officer's estimation process contains assumptions we consider cautious
- ● Light Purple We consider officer's process is appropriate and key assumptions are neither optimistic or cautious

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Scottish Government Covid-19 Business Grants	During 2020/21 Highland Council issued COVID-19 related grants and payments on behalf of the Scottish Government to the value of £136.373 million.	We obtained a schedule of COVID-19 grants and payment from the Council and reviewed the way in which grants were accounted for by the Council (either as a principal or an agent and compared this treatment with LASAAC issued guidance) in order to gain assurance over the completeness and accuracy of grants within the annual accounts. We have not identified any issues in respect of the accounting treatment and recognition in relation to these grants.	● [light purple]
Fair value measurements	The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. 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). 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.	We have considered unobservable inputs as part of our audit work in relation to investment properties and other material financial assets. No material misstatements were identified during our audit work.	● [light purple]

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Property Plant and Equipment (£2.634 billion)	As at 31 March 2021, the Council held PPE of £2.634 billion. Officers have disclosed that assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	We have tested the depreciation charged during 2020/21 and we have reviewed the appropriateness of the useful estimated lives used by the Council during the year. We have challenged Officer's assessment of the potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council. We are satisfied that the useful estimated lives used by the Council are reasonable.	[light purple]

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Property Plant and Equipment (Council Dwellings and Other Land and Buildings - £1.983 billion) / Asset Valuations (including the Covid-19 impact on valuation)	As at 31 March 2021, the Council held PPE of £2.634 billion including Council Dwellings and Other Land and Buildings of £1.983 billion. The Council employed professional valuers, District Valuer (DV) to value Council dwellings this year, for the first time, 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. 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. Officers have recognised and disclosed the impact of the Covid-19 on the valuers' assessments as at 31 March 2021. While the pandemic and resultant market conditions has increased the uncertainty on valuations, the valuers have concluded that the valuation of Council Dwellings and Other Land and Buildings is not subject to a material valuation uncertainty as at 31 March 2021.	We have tested the accounting entries processed by Officers in relation to the valuation to ensure these were in accordance with the 2020/21 Code. We have tested the data and assumptions applied by Senior Officers (and their experts) in producing the valuation estimate. We have evaluated the competence, capability and objectivity of the Council's professional valuers. We have used our auditor's valuation expert in order to challenge the Council's expert advice as well as the Council's Senior Officers 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 2021. We have challenged Officer's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council. While we have not identified any significant issues with Senior Officer's estimates, there are opportunities to enhance and improve the valuation process. See Action Points at Appendix 2.	[light purple]

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
IAS 19 Pension obligations (£336.470 million)	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. 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. 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. 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.	As noted on page 13, using the work of PwC we reviewed the key assumptions underpinning the actuarial valuation. While we identified some immaterial errors in the data used in the actuarial valuation (page 13) we are satisfied that these were not indicative of Senior Officer (management) bias. We are satisfied that the assumptions adopted were appropriate for the Council and considered reasonable i.e. within our acceptable tolerances and that Senior Officers have disclosed the key sensitivities surrounding these assumptions and data in the draft financial statements.	● [light purple]

Significant estimates and judgements (continued)

As set out in our Audit Plan, to ensure compliance with ISA 540 revised we also requested further information from Officers in relation to the following material estimates (which have not been considered significant by Officers as described above):

- Valuation of investment property (Common Good)Depreciation;
- Valuation of heritage assets;
- Holiday pay accrual and non-pay expenditure accruals;
- Accrued income; and
- PPP/PFI.

We are satisfied that these estimates have been calculated appropriately and that year end estimated balances have not been materially misstated. We are also satisfied that these do not represents areas of significant estimation uncertainty or critical judgement and therefore it is appropriate not to be included in Note 7 of the Council only accounts and Note 2 of the Group accounts.

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 the 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 senior officers regarding managements (senior officers) assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. This included group accounting polices.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Opinion on other aspects of the annual report and accounts	We are required to report to you on whether the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014. We have audited the elements of the Remuneration Report and are satisfied that these have been properly prepared in accordance with applicable legislation. We are also 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 satisfied that the information provided in the Management Commentary is consistent with the financial statements and prepared in accordance with applicable legislation.

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). Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. The Governance Statement reflects the assurances and conclusions reached by the Council's Internal Audit function in year.
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 has been received from the Council, including specific representations in respect of the Group. Specific representations have been requested from senior officers in respect of the significant assumptions used in making accounting estimates for property, plant and equipment valuations, provisions and accruals.
Going concern	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. 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: • 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	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, received matches for investigation in January 2021. 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.
Grants and WGA return	In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2020/21 we are required to provide the following certifications: • Education Maintenance Allowance 2020/21 [concluded in October 2021) • National Non-Domestic Rates Income Return (NDR) 2020/21 [submitted in October 2021]; and • Housing Benefit certification [work planned for November and December 2021] 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.

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 (senior officers). There was some misstatements to the financial statements identified during our audit, including uncorrected misstatements, both of which are set out in this appendix. Those differences not adjusted are not considered material to the financial statements. In addition Officers identified changes required between the unaudited version and the final version, which were Officer adjustments not identified through audit process.

Impact of adjusted misstatements

Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £' 000
To correction the incorrect reversal of business discretionary grants funded by specific grant from CIES and misclassified as agent transactions		
Dr Service Expenditure	1,526	
Cr Service Income	(1,526)	
The adjustment to correct estimated benefits paid to actual benefits paid within the IAS 19 liability calculation.		
Dr Pension Reserve (taken through CIES OCI)	267	
Cr Pension Liability		(267)
Being the reclassification of short-term to long term debt in relation to loan due > 1 year		
Dr Long Term Debtors		662
Cr Short Term Debtors		(662)
Overall impact	267	(267)

Impact of Officer adjustments

Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £' 000
Officer adjustments		
Being the late revaluation of Council Housing		
Dr HRA depreciation, impairment and write off	153,986	
Dr Revaluation losses in year	49,582	
Cr Council dwellings		(203,568)
Correction of Skye Housing		
Dr HRA depreciation, impairment and write off	1,446	
Cr Revaluation losses in year	(1,446)	
Overall impact	203,568	(203,568)

Impact of unadjusted misstatements 2020/21

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. Officers consider these adjustments to not have a material impact on the financial statements and the user of the financial statements understanding of the Council financial position.

Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £' 000
Adjustment to fully recognise year end creditors balance (and remove uncleared BACS balance)		
Dr Short term creditors – trade payables		7,678
Cr Cash and cash equivalents		(7,678)
Being the impact of the use of actual total assets of the pension fund at the year end date compared with the estimates on the employer body liability.		
Dr Pension liability		6,348
Cr Pension reserve	(6,348)	
Being the reversal of internal developer contributions found within substantive testing at <Fees and charges income>		
Dr Service Income	262	
Cr Service Expenditure	(262)	
Being the correction of insurance fund debtor recognised		
Dr Service Income	272	
Cr Insurance fund debtor		(272)
Overall impact	(6,076)	6,076

Impact of unadjusted misstatements 2019/20

The table below provides details of adjustments identified during the 2020/21 audit in relation to the 2019/20 annual accounts which have not been made within the final set of financial statements. Officers consider these adjustments to not have a material impact on the financial statements and the user of the financial statements understanding of the Council financial position.

Detail	Comprehensive Income and Expenditure £'000	Statement of Financial Position £' 000
Adjustment to reflect correct school measurements that should have been used in 2019/20 Dr Other land and buildings Cr Revaluation reserve		4,200 (4,200)
Adjustment to reflect missing school valuation from 2019/20 valuation exercise Dr Revaluation reserve Cr Other land and buildings		2,359 (2,359)
Adjustment to correct typo identified in relation to 2019/20 valuation exercise Dr Other land and buildings Cr Revaluation reserve		2,586 (2,586)
Overall impact	-	-

Misclassification and disclosure changes

The table below sets out our more significant proposed disclosure amendments, noting those that have been updated and those that have not. We are comfortable those that are not updated do not have a material impact on the users of the accounts and their understanding of the Council.

Disclosure	Auditor recommendations	Adjusted?
Assets last revalued disclosure	Assets purchased in the year for £1,503k but not subject to formal revaluation stated as having last been revalued in 2020/21. Furthermore, 'Office at Inverness Castle' has been revalued in the year to market value and reclassed to AuC. All balances within the disclosure for AuC are stated as being carried at historical cost.	To be confirmed on review of final financial statements
Cash and cash equivalents	Cash overdraft per Note 18 being offset against temporary investments where no legal right of offset exists.	
Common Good Fund	Common Good Fund presented as a set of financial statements as opposed to a Note to the Accounts. The latter is recommended by Audit Scotland/Code as best practice.	
IFRS 15	Disclosures in relation to revenue recognition within accounting policies do not fully meet the requirements of IFRS 15.	
PFI	Misstatements noted on recalculation of ageing of future payments due in respect of capital, interest and service charges per Note 33. Fair value disclosures for PFI updated for prior year (not considered material) which should only be updated in instances of material changes.	
Capital grants unapplied – movement on reserves	Whilst the opening and closing balances on the movements in the reserve are stated correctly, the movements in the reserves were disclosed incorrectly as well as amounts disclosed in the capital grants unapplied account. A historical difference of £1.8m was also identified in relation to the Council's capital financing requirement as disclosed in the accounts.	

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work:

Recommendation	Agreed officer response
1. Operating Leases 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. 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.	Accepted Responsible Officer – Head of Corporate Finance Implementation Date – April 2022

Recommendation	Agreed officer response
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.	Accepted Responsible Officer – Head of Corporate Governance Implementation Date – April 2022

Recommendation	Agreed officer response
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 (see Appendix 1). 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.	Accepted Responsible Officer – Head of Corporate Finance Implementation Date – May 2022
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.	Accepted Responsible Officer – Head of Corporate Finance Implementation Date – May 2022

Recommendation	Agreed officer response
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.	Accepted Responsible Officer – Head of Corporate Finance Implementation Date – May 2022

Recommendation	Agreed officer response
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.	Accepted Responsible Officer – Head of Development and Regeneration Implementation Date – May 2022

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations:

1. Property, plant and equipment valuation

Officers should ensure that a more robust valuation processes is established to consider the extensive portfolio of assets held to ensure they are valued with sufficient frequency to ensure they are not materially misstated in the accounts. This exercise should consider those assets not subject to formal revaluation in year to ensure there is no indication of material movement in carrying value.
Furthermore, to ensure there is appropriate review and scrutiny of the Council's valuation process, the annual valuation should be reported through a formal revaluation report, summarising the key assumptions made in the valuation and scope and limitations of the valuers work. Given the significance of the carrying value of property, plant and equipment and the level of estimation and judgement around the valuation, it is critical that Officers ensure they have robust processes in place for the effective review, scrutiny and challenge of the Council's valuation to ensure that assets continue to be valued in accordance with the Code and RICS guidance.

Officer response: for assets not included in the formal valuation desktop estimations of changes in value will be requested, checked for material changes and if required these will be used to update the reported values. The valuation process will be initiated with a formal instruction from Finance Service and the Internal Valuer will supply a formal valuation report in return.
The Council will review its structures and process across its property and valuation teams to drive improvements in the asset valuation process.
Action owner: Head of Corporate Finance and Head of Development and Regeneration. ECO Housing and Property
Timescale for implementation:

Follow up: Closed in relation to Council Dwellings and Other Land and Buildings valuation where we noted that a formal valuation repot was prepared in the current year. Superseded by Action Point 5 in the current year in relation to Common Good Investment Property.

2. Accounts preparation

Our audit testing identified a number of quantitative and qualitative misstatements to the financial statements. While we recognise 2019/20 had unique challenges, including the impact of Covid-19 on financial reporting arrangements, it is important that the Council has sufficient resources to support the preparation of the accounts, including internal review and scrutiny prior to audit inspection. In particular, the Council should review arrangements to ensure completeness and accuracy of income and expenditure transactions around the year end, confirming that the thresholds applied by Officers is suitable to ensure financial statements are materially correct. The Council should have sufficient review of the financial statements, including accounting policies and disclosures, to ensure that the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom have been met. This review should incorporate the Management Commentary contained within the financial statements to provide the reader of the accounts a clear understand of the Council's financial performance during the year.

Officer response: The Council will look to amend year end processes and realign resources to facilitate increased checks of income and expenditure for completeness and accuracy and for review of the accounts prior to submission to The Auditor
Action owner: Head of Corporate Finance and Commercialism
Timescale for implementation: 31.03.21

Follow up: Closed. As noted on page 3 the quality of unaudited accounts were good, and these were made available for inspection within the timeframe required and no cut off issues have been identified in the current year.

3. Objection to the financial statements –Insurance Fund Administration

There is an opportunity to enhance the transparency around the application of the Fund, including greater evaluation and reporting of the internal insurance risk being held by the Council through reducing the level of Insurance cover. Good practice recommends regular actuarial assessment of the Insurance Fund to quantify the risk being managed by the Council and therefore better inform Officers and Councillors around the level of Insurance Fund that the Council should maintain.

Officer response: The Council will look to increase reporting of the insurance fund to the Resources Committee and give consideration to conducting an actuarial assessment of the fund.
Action owner: Head of Corporate Finance and Commercialism
Timescale for implementation: 30.06.21

Follow up: Closed. Reporting on the insurance fund has been reviewed.

4. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	260,040
Pooled costs	24,300
Contribution to Audit Scotland costs	14,050
Contribution to Performance Audit and Best Value	136,160
2020/21 Fee	434,550
Highland Council Charitable Trust	1,000
Highland Charities Trust	1,000
Total 2020/21 Fee	436,550

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

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)

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.

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

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