

The Highland Council Audit and Scrutiny Committee

30 November 2023

Highland Charities Trust Audit of 2022/23 annual report and financial statements

Independent auditor's report

1. Our audit work on the 2022/23 annual report and financial statements is now complete. We anticipate being able to issue unqualified audit opinions in the independent auditor's report on 30 November 2023 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. In accordance with the Charities Accounts (Scotland) Regulations 2006 an audit is required for all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of Part VII of the Local Government (Scotland) Act 1973 and section 44 (1)(c) of the Charities and Trustees Investment (Scotland) Act 2005. The external auditor of Highland Council, Audit Scotland, is the appointed auditor of the relevant trust for the year ended 31 March 2023.

3. Under International Standards on Auditing in the UK, we report specific matters arising the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. The Audit and Scrutiny Committee of Highland Council is identified as those charged with governance. The trustees of the charity are the elected officials of Highland Council in an ex-officio capacity.

4. This report sets out, for the Audit and Scrutiny Committee's consideration, the matters arising from the audit of the Highland Charities Trust annual report and financial statements for 2022/23 that require to be reported under ISA (UK) 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. [Appendix C](#) of this paper includes our summary of the audit and will be included in the 2022/23 Highland Council Annual Audit Report. The summary has been agreed with officers.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

6. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from the Interim Head of Corporate Finance (Treasurer)

8. As part of the completion of our audit, we are seeking written representations from the Interim Head of Corporate Finance (Treasurer) on aspects of the annual accounts, including any judgements and estimates made.

9. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Interim Head of Corporate Finance (Treasurer) with the signed annual accounts prior to the independent auditor's report being certified.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Highland Charities Trust and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Highland Charities Trust for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and Notes to the Accounts, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the Highland Charities Trust for the year ended 31 March 2023 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1),(2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my 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. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Highland Charities Trust in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of financial statements that properly present the receipts and payments of the charity in accordance with the financial reporting framework, and for such internal control as the trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My 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 my 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. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector and charity sector to identify that the Local Government (Scotland) Act 1973, Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006 are significant in the context of the Highland Charities Trust;
- inquiring of the Trustees as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Highland Charities Trust;
- inquiring of the Trustees concerning the Highland Charities Trusts' policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on 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 my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Highland Charities Trusts' 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 my auditor's report.

Reporting on other requirements

Other information

The trustees are responsible for the other information in the statement of accounts. The other information comprises the Trustees' Annual Report.

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

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Trustees' Annual Report to the extent explicitly stated in the following opinion prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Trustees' Annual Report

In my opinion, based on the work undertaken in the course of the audit, the information given in the Trustees' Annual Report 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 Charity Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Use of my 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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

[DocuSign to insert signature]

Audit Scotland
102 West Port
Edinburgh
EH3 9DN

[DocuSign to insert date]

Esther Scoburgh CPFA is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973

Appendix B: Letter of Representation (ISA 580)

Esther Scoburgh, Senior Audit Manager
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Dear Esther

Highland Charities Trust Annual Report and Financial Statements 2022/23

1. This representation letter is provided about your audit of the annual report and financial statements of Highland Charities Trust for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements are properly presented in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the trustees of the registered charitable trust, the following representations given to you in connection with your audit of the Highland Charities Trust for the year ended 31 March 2023.

General

3. Highland Charities Trust and I have fulfilled our statutory responsibilities for the preparation of the 2022/23 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Highland Charities Trust have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The financial statements have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and the regulations 8(1), (2) and (3) of the Charities Accounts (Scotland) Regulations 2006.

6. I have ensured that the financial statements properly present the receipts and payments and the balances held by the Highland Charities Trust at 31 March 2023.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the accounts. The accounting policies are determined by the 2022/23 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Highland Charities Trust's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Highland Charities Trust's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Highland Charities Trust's ability to continue as a going concern.

Funds

10. The investments shown in the balance sheet at 31 March 2023 were owned by the registered charity. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

11. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2023.

Fraud

12. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

13. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

14. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2022/23 accounting code. I have made available to you the identity of all of Highland Charities Trusts' related parties and all the related party relationships and transactions of which I am aware.

Trustee's Annual Report

15. I confirm that the Trustees' Annual Report has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

16. I confirm that there are no issues or deficiencies in internal control that require to be disclosed. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2023 which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

17. All events subsequent to 31 March 2023 for which the 2022/23 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Brian Porter CPFA
Treasurer

Appendix C: Extract from the 2022/23 Highland Council Annual Audit Report

The following is an extract from the 2022/23 Highland Council Annual Audit Report relating to the audit of the S.106 Charitable Trusts. The 2022/23 Highland Council Annual Audit Report will be presented to the January 2024 special meeting of the Audit & Scrutiny Committee.

Our audit opinions on the two Section 106 charities were unmodified

Due to the interaction of Section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of The Highland Council are sole trustees, irrespective of the size of the charity. There are two trusts where the council are sole trustees:

- Highland Charities Trust
- Highland Council Charitable Trusts

The Charities Accounts (Scotland) Regulations 2006 (as amended in 2010) permits a single set of accounts for charities that meet the definition of being 'connected'. Connected charities are defined as charities that have *'common or related purposes, or charities which have common control or unity of administration'*.

Audit Scotland views that the definition of connected charities is met for any section 106 charity administered by the same council. This 'unity of administration' requirement is met even where the trustees differ. Where a council administers multiple section 106 charities, the overall number of separate sets of statements of accounts can therefore be reduced by the effective application of the connected charities provisions.

We discussed the potential to connect the two charities listed above and officers have agreed to consider this going forward. We would encourage the council to review this position and consider making full use of the connected charities provisions in future years.

Recommendation 3

The council should review the potential to join the two section 106 charitable trusts and consider making full use of the connected charities provision.

We have completed our audit. Our audit opinions on the two section 106 charities are unmodified.